

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the Bonds.*

**\$37,250,000**

**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA)  
OF THE SANTA MARGARITA WATER DISTRICT  
SERIES 2017A SPECIAL TAX REFUNDING BONDS**

**Dated: Delivery Date**

**Due: September 1, as shown on the inside front cover page**

The Series 2017A Special Tax Refunding Bonds (the “**Bonds**”) are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from certain special taxes to be levied on property within Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (the “**District**”), according to the Rate and Method of Apportionment of Special Tax approved by the voters within the District and by the Board of Directors of the Santa Margarita Water District (the “**Water District**”), acting as the legislative body of the District. Payment of the principal of and interest on the Bonds is secured by a pledge of and lien upon the special taxes which is on a parity with the lien and charge upon such special taxes that secure payment of the District’s Series 2014B Special Tax Refunding Bonds, which are currently outstanding in the aggregate principal amount of \$29,600,000. The Bonds will be issued pursuant to a Bond Indenture, dated as of August 1, 1999, between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”), as amended and supplemented, including by a Fifth Supplemental Bond Indenture, dated as of August 1, 2017, between the District and the Trustee.

The Bonds are being issued: (i) to provide for the current refunding of the District’s Series 2007 Special Tax Refunding Bonds, which are currently outstanding in the aggregate principal amount of \$49,405,000; (ii) to purchase a reserve surety from Build America Mutual Assurance Company (“**BAM**” or the “**Insurer**”) for deposit in the reserve account for the Bonds; and (iii) to pay costs of issuance of the Bonds, including but not limited to the premium for a municipal bond insurance policy (the “**Policy**”) to be issued by the Insurer insuring the payment of principal of and interest on the Bonds maturing on September 1, 2029 and September 1, 2030, inclusive. See the captions “REFUNDING PLAN” and “SOURCES AND USES OF FUNDS.”

The Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”), and will be available to Beneficial Owners in denominations of \$5,000 or any integral multiple thereof pursuant to the book-entry system maintained by DTC. The Beneficial Owners of the Bonds will not receive certificates representing their interests in the Bonds. Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2018. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or to its nominee, Cede & Co., by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants, as more fully described herein. See the caption “THE BONDS—Book-Entry System.”

*The Bonds are subject to optional and mandatory redemption from Special Tax prepayments as described herein. See the captions “THE BONDS—Optional Redemption” and “THE BONDS—Mandatory Redemption From Special Tax Prepayments.”*

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT (EXCEPT FOR THE SPECIAL TAXES), THE WATER DISTRICT, THE COUNTY OF ORANGE, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE DISTRICT, THE WATER DISTRICT OR THE COUNTY OF ORANGE BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER FUNDS PLEDGED PURSUANT TO THE INDENTURE, AS MORE FULLY DESCRIBED HEREIN.**

The scheduled payment of principal of and interest on the Bonds maturing on September 1 of the years 2029 and 2030, inclusive, with CUSIPs 802242FZ5 and 802242GA9, respectively, (together, the “**Insured Bonds**”), when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Insured Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.



MATURITY SCHEDULE  
(See Inside Front Cover Page)

**The purchase of the Bonds involves certain risks. See the caption “SPECIAL RISK FACTORS” for a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds.**

This cover page contains information for quick reference only. It is not a complete summary of this Official Statement. Investors should read the entire Official Statement to obtain information that is essential to making an informed investment decision.

The Bonds are offered, when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the District by Stradling Yocca Carlson & Rauth, Newport Beach, California, as Disclosure Counsel, and by Best Best & Krieger LLP, as the Water District’s General Counsel, for the Trustee by its counsel, for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, and for the Insurer by its counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York on or about August 23, 2017.

PiperJaffray®

**\$37,250,000**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA)**  
**OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

**MATURITY SCHEDULE**

**BASE CUSIP\* 802242**

<b><i>Maturity Date (September 1)</i></b>	<b><i>Principal Amount</i></b>	<b><i>Interest Rate</i></b>	<b><i>Yield</i></b>	<b><i>Price</i></b>	<b><i>CUSIP*</i></b>
2018	\$1,740,000	3.000%	0.880%	102.152	FN2
2019	1,915,000	3.000	1.030	103.932	FP7
2020	2,060,000	4.000	1.150	108.441	FQ5
2021	2,250,000	4.000	1.260	110.713	FR3
2022	500,000	3.000	1.400	107.733	FS1
2022	1,950,000	4.000	1.400	112.566	GB7
2023	2,640,000	4.000	1.580	113.849	FT9
2024	2,845,000	5.000	1.760	121.313	FU6
2025	500,000	3.000	1.920	107.993	FV4
2025	2,600,000	5.000	1.920	122.798	GC5
2026	3,360,000	5.000	2.090	123.814	FW2
2027	3,655,000	5.000	2.260	124.449	FX0
2028	3,935,000	5.000	2.450	122.538 <sup>(C)</sup>	FY8
2029 <sup>(1)</sup>	4,265,000	5.000	2.520	121.843 <sup>(C)</sup>	FZ5
2030 <sup>(1)</sup>	3,035,000	5.000	2.650	120.564 <sup>(C)</sup>	GA9

\* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the District nor the Underwriter takes any responsibility for the accuracy of such numbers.

<sup>(C)</sup> Priced to first optional redemption date of September 1, 2027 at par.

<sup>(1)</sup> Insured Bond.

**SANTA MARGARITA WATER DISTRICT**  
Orange County, California

**Board of Directors**

Charles T. Gibson, President  
Justin McCusker, Vice President  
Saundra F. Jacobs, Treasurer  
Betty H. Olson, Director  
Charles C. Wilson, Director

**District Staff**

Daniel R. Ferons, General Manager  
Don Bunts, Deputy General Manager  
Robert Grantham, Assistant General Manager and Chief Financial Officer  
Erica Castillo, Controller  
Patricia Butler, Chief Engineer  
Kelly Radvansky, Secretary

**Special Services**

**General Counsel**

Best Best & Krieger LLP  
Riverside, California

**Bond Counsel and Disclosure Counsel**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

**Municipal Advisor**

PFM Financial Advisors LLC  
Los Angeles, California

**Special Tax Consultant**

David Taussig & Associates, Inc.  
Newport Beach, California

**Trustee**

The Bank of New York Mellon Trust Company, N.A.  
Los Angeles, California

**Verification Agent**

Grant Thornton LLP  
Minneapolis, Minnesota

[THIS PAGE INTENTIONALLY LEFT BLANK]

## TABLE OF CONTENTS

INTRODUCTION .....	1	Rate and Method of Apportionment of Special Tax .....	37
General .....	1	Special Tax Delinquencies .....	43
The District .....	2	SPECIAL RISK FACTORS .....	44
Sources of Payment for the Bonds .....	3	The Bonds are Limited Obligations of the District .....	44
The Reserve Account .....	3	The Special Taxes are not Personal Obligations of the Property Owners .....	44
Property Values .....	4	Risks of Real Estate Secured Investments Generally .....	44
Improvement District Nos. 7 and 7A .....	4	Insufficiency of Special Taxes .....	45
Description of the Bonds .....	5	Undeveloped Property .....	46
Professionals Involved in the Offering .....	5	Property Values .....	46
Bond Insurance .....	5	Reduction of Assessed Values .....	47
Special Risks .....	5	Parity Taxes and Special Assessments .....	48
Changes Since the Preliminary Official Statement .....	6	Special Tax Delinquencies .....	48
Other Information .....	6	Non-Cash Payment of Special Taxes .....	49
REFUNDING PLAN .....	6	Disclosures to Future Purchasers of Land .....	49
General .....	6	Potential Early Redemption of Bonds from Prepayments .....	50
Verification of Mathematical Computations .....	7	Payment of Special Taxes .....	50
SOURCES AND USES OF FUNDS .....	7	Bankruptcy .....	50
THE BONDS .....	7	FDIC/Federal Government Interests in Properties .....	51
Description of the Bonds .....	7	Geologic, Topographic and Natural Disaster Conditions .....	53
Authority for Issuance .....	8	Endangered and Threatened Species .....	53
Purpose of the Bonds .....	8	Hazardous Substances .....	53
Optional Redemption .....	9	Voter Initiatives and State Constitutional Provisions .....	54
Mandatory Redemption from Special Tax Prepayments .....	9	Ballot Initiatives and Legislative Measures .....	56
Notice of Redemption .....	9	Loss of Tax Exemption .....	56
Purchase of Bonds by District .....	10	Limited Secondary Market .....	57
Registration of Exchange or Transfer .....	10	Limitations on Remedies .....	57
Debt Service Schedule .....	10	IRS Audit of Tax-Exempt Issues .....	57
SECURITY FOR THE BONDS .....	12	Risks Associated with Bond Insurance .....	57
The Special Taxes .....	13	Forward-Looking Statements .....	58
No Teeter Plan .....	14	CONTINUING DISCLOSURE .....	58
The 2014B Bonds .....	14	LEGAL OPINION .....	59
Debt Service Coverage .....	14	TAX MATTERS .....	59
Special Tax Fund .....	16	NO LITIGATION .....	61
Administrative Expense Account .....	16	RATINGS .....	61
Interest Account and Principal Account .....	17	UNDERWRITING .....	62
Redemption Account .....	17	FINANCIAL INTERESTS .....	62
Prepayment Account .....	18	PENDING LEGISLATION .....	62
Reserve Account .....	18	MISCELLANEOUS .....	62
Covenant for Superior Court Foreclosure .....	20	APPENDIX A RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX .....	A-1
Issuance of Parity Bonds .....	21	APPENDIX B SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE .....	B-1
Property Values .....	24		
Direct and Overlapping Debt and Value-to-Lien Ratios .....	26		
Other Financing Districts .....	32		
BOND INSURANCE .....	32		
Bond Insurance Policy .....	33		
Build America Mutual Assurance Company .....	33		
THE COMMUNITY FACILITIES DISTRICT .....	34		
Location .....	34		
The Development Project .....	35		
Summary of Formation Proceedings .....	37		

APPENDIX C FORM OF BOND COUNSEL  
OPINION .....C-1

APPENDIX D FORM OF CONTINUING  
DISCLOSURE AGREEMENT ..... D-1

APPENDIX E BOOK-ENTRY ONLY  
PROVISIONS .....E-1

APPENDIX F SPECIMEN MUNICIPAL  
BOND INSURANCE POLICY ..... F-1

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

This Official Statement speaks only as of its date, and the information that is contained herein is subject to change. This Official Statement and any continuing disclosure documents of the District are intended to be made available through the District at the address indicated below. The District has undertaken to provide certain continuing disclosure pursuant to a Continuing Disclosure Agreement, as described herein. Copies of the resolutions and other documents relating to the issuance of the Bonds are available upon request, and upon payment to the District of a charge for copying, mailing and handling, from the office of the Controller of the Santa Margarita Water District at 26111 Antonio Parkway, Rancho Santa Margarita, California 92688.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Bonds described herein, other than as contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words and include, but are not limited to, statements under the caption “THE COMMUNITY FACILITIES DISTRICT.”

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the District has agreed to provide certain on-going financial and operating data, except as specifically described under the caption “CONTINUING DISCLOSURE,” the District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based change.

The information that is set forth herein has been obtained from the Water District, for the District, and from other sources that are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the District or the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. All summaries contained herein of any resolutions, the Indenture, or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

The Underwriter has provided the following sentence for inclusion in the Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of this information.

The Water District maintains a website. However, the information presented on such website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the caption “BOND INSURANCE” and in Appendix F—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

[THIS PAGE INTENTIONALLY LEFT BLANK]



**\$37,250,000**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA)**  
**OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

**INTRODUCTION**

**General**

This Official Statement, including the front cover page, inside front cover page and appendices, is provided to furnish certain information in connection with the issuance and sale by Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (the “**District**”) of its Series 2017A Special Tax Refunding Bonds in the aggregate principal amount of \$37,250,000 (the “**Bonds**”). The Bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the “**Act**”), a resolution adopted by the Board of Directors (the “**Board of Directors**”) of the Santa Margarita Water District (the “**Water District**”), acting as the legislative body of the District, on July 21, 2017, and a Bond Indenture dated as of August 1, 1999 (the “**Original Indenture**”), between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”), as amended and supplemented, including by a Fifth Supplemental Bond Indenture, dated as of August 1, 2017, between the District and the Trustee (the “**Supplemental Indenture**”). The Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof and will be dated as of and bear interest from the date of their delivery at the rates set forth on the inside front cover page.

The Bonds are being issued: (i) to provide for the current refunding of the District’s Series 2007 Special Tax Refunding Bonds (the “**2007 Bonds**”), which are currently outstanding in the aggregate principal amount of \$49,405,000; (ii) to purchase a reserve surety (the “**Reserve Policy**”) from Build America Mutual Assurance Company (“**BAM**” or the “**Insurer**”) for deposit in the reserve account for the Bonds; and (iii) to pay costs of issuance of the Bonds, including but not limited to the premium for a municipal bond insurance policy (the “**Policy**”) to be issued by the Insurer insuring the payment of principal of and interest on the Bonds maturing on September 1, 2029 and September 1, 2030, inclusive (together, the “**Insured Bonds**”).

Payment of the principal of and interest on the Bonds is secured by a pledge of and lien upon the special taxes which is on a parity with the pledge of and lien on the District’s Series 2014B Special Tax Refunding Bonds (the “**2014B Bonds**”). The 2014B Bonds are currently outstanding in the aggregate principal amount of \$29,600,000. The 2014B Bonds were issued pursuant to a Fourth Supplemental Bond Indenture, dated as of May 1, 2007 (the “**Fourth Supplemental Indenture**”), between the District and the Trustee, which amended and supplemented the Original Indenture, as previously amended and supplemented.

The term “**Indenture**” as used in this Official Statement should be understood to refer to the Original Indenture as amended and supplemented by the First Amendment to Bond Indenture, dated as of October 19, 2001, the First Supplemental Bond Indenture, dated as of April 1, 2003, the Second Supplemental Bond Indenture, dated as of May 1, 2007, the Third Supplemental Bond Indenture, dated as of August 1, 2011, the Fourth Supplemental Indenture, and the Supplemental Indenture, each between the District and the Trustee.

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms that are used in this Official Statement and not defined will have the meaning set forth in Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE.”

## **The District**

The District consists of approximately 2,149 gross acres of land which is located in the southwest part of the Water District, approximately 2.6 miles east of the Pacific Ocean at its nearest point. The Water District includes approximately the eastern half of the territory within the City of Mission Viejo, all of the territory of the City of Rancho Santa Margarita and the portion of territory within the City of San Clemente that is located in the District. The District is located in the eastern portion of the City of San Clemente, and in the southeastern portion of Orange County (the “County”).

The land within the District is part of the approximately 3,510 acre Talega Valley Planned Development (the “**Talega Project**”), which includes residential neighborhoods with single family homes ranging in size from approximately 1,660 square feet to over 6,000 square feet, townhomes ranging in size from approximately 1,000 square feet to over 2,300 square feet and 548 apartment units. 362 of such apartment units have prepaid the Special Taxes that secure the Bonds (as discussed under the caption “—Sources of Payment for the Bonds”) in full. The Talega Project also includes parks and sports fields, the Talega Athletic and Swim Club, open space and trails, an elementary school and a championship golf course. As of January 1, 2016, the net assessed value of taxable property in the District was \$2,874,746,066.

Development activity in the Talega Project began in 1998 and the first sales of new homes commenced in 1999. The Talega Project is substantially built out. As of March 1, 2017, building permits have been issued for all 3,863 planned residential units. An elementary school and 70 acres of public parks have been constructed and are in use.

The development plan for the Talega Project also provided for the development of approximately 13.29 acres that were designated for commercial uses and approximately 66.86 acres that were designated for business park uses. As of March 1, 2017, approximately 146,000 square feet of commercial buildings had been constructed and occupied on the approximately 13.29 acres designated for commercial uses, and approximately 762,000 square feet of office buildings had been constructed and occupied on approximately 49 acres of the business park property. Approximately 17 acres of undeveloped business park property have yet to be developed. The 18-hole Fred Couples designed championship golf course, Talega Golf Club, opened for play in January 2001.

The following retail and commercial properties are located within the District:

The Talega Village Center is a community shopping center that is located in the center of the Talega Project and anchored by a Ralphs Fresh Fare supermarket. The shopping center includes approximately 107,000 building square feet that is subject to the Special Tax. There are more than 20 national retailers, local boutiques, restaurants and services including the Ralphs supermarket, restaurants, cafes, fitness centers, banks and a spa. The property is owned by Talega Village Center LLC, which leases the buildings to the various tenants.

Courtyards at Talega is a neighborhood shopping center located at the southwest boundary of the District. Only a portion of the shopping center is located within the District. The portion of the shopping center that is located in the District includes approximately 39,000 building square feet. The center includes various restaurants and service providers. The property is owned by several entities, which lease space to the various tenants.

The Talega Business Park is located along a one mile stretch on the south side of Avenida Pico and includes approximately 45 office buildings. The various buildings in the business park are owned by different entities.

## **Sources of Payment for the Bonds**

The Bonds are payable from Special Taxes that are included on the regular property tax bills sent by the Treasurer-Tax Collector of the County (the “**County Treasurer**”) to the record owners of property within the District. The principal of and interest on the Bonds are secured by a lien upon and pledge of the revenues from the collection of the Special Taxes that are levied on property in the District. The Bonds and the 2014B Bonds are equally secured by the lien upon and pledge of the Special Tax revenues. The Indenture provides that the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged to the payment of the principal of, premium, if any, and interest on the Bonds and the 2014B Bonds (and any Parity Bonds that may be issued in the future), and that such pledge constitutes a first lien on the Net Taxes and such other amounts.

The Indenture defines “**Net Taxes**” as Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses and minus the portion of any Prepayment that is not required to be deposited in the Special Tax Fund pursuant to the Indenture.

The Indenture defines “**Gross Taxes**” as the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to all legal fees and expenses, court costs, consultant and title insurance fees and expenses. See the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax” and Appendix A.

Based on the District’s current development status, the District anticipates that Special Taxes levied for Fiscal Year 2017-18 on parcels of Developed Property (as such term is defined in Appendix A) in the District will be sufficient to pay the full amount of debt service on the Bonds and the outstanding 2014B Bonds in the Bond Year ending September 1, 2018, and that no Special Tax will be levied on Undeveloped Property (as such term is defined in Appendix A). See Table 4 under the caption “SECURITY FOR THE BONDS—Direct and Overlapping Debt and Value-to-Lien Ratios.”

The District has covenanted for the benefit of the Owners of the Bonds that: (i) it will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; (ii) it will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied for such Fiscal Year; and (iii) it will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of five years or more or in an amount in excess of \$10,000, so long as: (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement; and (b) with respect to the Bonds and the 2014B Bonds, or any other Parity Bonds issued in the future, the District is not in default in the payment of the principal of or interest on the Bonds and the 2014B Bonds or any such Parity Bonds. See the caption “SECURITY FOR THE BONDS—The Special Taxes” and “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure.”

## **The Reserve Account**

The Supplemental Indenture establishes the 2017A Bond Reserve Account in the Reserve Account of the Special Tax Fund. The Supplemental Indenture provides that the 2017A Bond Reserve Account will be treated as a part of the Reserve Account established by the Indenture for all purposes; provided that moneys and securities held in the 2017A Bond Reserve Account will be applied solely for the benefit of the Bonds.

Unless otherwise indicated, whenever the term “**Reserve Account**” appears in this Official Statement, it refers to the Reserve Account established in the Special Tax Fund pursuant to the Indenture, including the 2017A Bond Reserve Account.

On the date of the issuance of the Bonds, the Reserve Policy in the stated amount of \$3,053,405.32 will be deposited in the 2017A Bond Reserve Account, which will cause the total amount in all subaccounts of the Reserve Account to equal the Reserve Requirement. Amounts on deposit in the 2017A Bond Reserve Account will be used solely for the purpose of paying the principal of, and interest on, the Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Bond Fund are insufficient. The District is not obligated: (i) to make any additional deposits into the 2017A Bond Reserve Account in the event that the Insurer defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of the Insurer. See the caption “SECURITY FOR THE BONDS—Reserve Account.”

Subject to the maximum annual amounts of Special Taxes specified in the Rate and Method of Apportionment of Special Tax, if the amount on deposit in the Reserve Account is less than the Reserve Requirement, the District has covenanted to restore the amount in the Reserve Account to the Reserve Requirement by the inclusion of a sufficient amount in the next annual Special Tax levy within the District. The ability of the Board of Directors or the Water District, in its capacity as the legislative body of the District, to increase the annual Special Taxes levied in the District to replenish the Reserve Account is subject to the maximum annual amounts of Special Taxes that are authorized by the Rate and Method of Apportionment of Special Tax and the provisions of the Act that are described below. See the caption “SECURITY FOR THE BONDS—Reserve Account.”

Pursuant to the Act, the amount of the Special Tax to be levied on any Assessor’s Parcel of Residential Property which is used as a private residence may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other Assessor’s Parcel within the District.

Neither the faith and credit nor the taxing power of the District (except to the extent of the Special Taxes), the Water District, the County, the State of California (the “**State**”) or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the Water District or the County or general obligations of the District, but are limited obligations of the District payable solely from the Special Taxes as more fully described herein.

### **Property Values**

The net assessed value of the taxable property in the District, as determined by the County Assessor, as of January 1, 2016 was \$2,874,746,066. See the caption “SECURITY FOR THE BONDS—Property Values.”

The ratio of the total amount of the assessed value of property in the District (as of January 1, 2016) to the amount of bonded indebtedness which will be outstanding and secured by property taxes, special taxes and assessments levied on property in the District, upon the issuance of the Bonds, will be approximately 20.54 to 1. See the captions “SECURITY FOR THE BONDS—Property Values,” “SECURITY FOR THE BONDS—Direct and Overlapping Debt and Value-to-Lien Ratios,” “SPECIAL RISK FACTORS—Property Values” and “SPECIAL RISK FACTORS—Reduction of Assessed Values.”

### **Improvement District Nos. 7 and 7A**

The land within the District is also located within the Water District’s Improvement District No. 7 and Improvement District No. 7A. The Water District is authorized to issue general obligation bonds for Improvement District No. 7 in the aggregate principal amount of \$40,000,000 and for Improvement District

No. 7A in the aggregate principal amount of \$57,000,000. Principal of and interest on bonds issued for Improvement Area No. 7 or Improvement District No. 7A would be paid from *ad valorem* assessments levied on the assessed value of land within the applicable improvement district. None of such authorized debt has been issued and the Board of Directors of the Water District has covenanted in a resolution adopted on May 23, 2007 that it will not issue any general obligation bonds on behalf of Improvement District No. 7 or Improvement District No. 7A.

### **Description of the Bonds**

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”), and will be available to actual purchasers of the Bonds (the “**Beneficial Owners**”) in denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are, or act through, DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds.

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry system is discontinued with respect to the Bonds, the Beneficial Owners will become the registered Owners of the Bonds and will be paid principal and interest by the Trustee, as described herein. See Appendix E.

### **Professionals Involved in the Offering**

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Trustee under the Indenture and as Escrow Bank under the Escrow Agreement. Digital Assurance Certification, LLC (“**DAC**”) will act as Dissemination Agent under the Continuing Disclosure Agreement. Piper Jaffray & Co. is the Underwriter for the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the District by Stradling Yocca Carlson & Rauth, Newport Beach, California, as Disclosure Counsel, and by Best Best & Krieger LLP, Riverside, California, as the Water District’s General Counsel, for the Trustee by its counsel and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. Other professional services have been performed by PFM Financial Advisors LLC, Los Angeles, California, as Municipal Advisor, and David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant.

For information concerning circumstances in which certain of the above-named professionals may have a financial or other interest in the offering of the Bonds, see the caption “FINANCIAL INTERESTS.”

### **Bond Insurance**

Concurrently with the issuance of the Bonds, the Insurer will issue the Policy. The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement. See the caption “BOND INSURANCE.” Payment of the principal of and interest on the Bonds maturing on September 1 of the years 2018 through 2028, inclusive (collectively, the “**Uninsured Bonds**”), is not insured by a municipal bond insurance policy.

### **Special Risks**

See the caption “SPECIAL RISK FACTORS” for a discussion of risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors.

## **Changes Since the Preliminary Official Statement**

Changes have been made to this Official Statement since the Preliminary Official Statement dated July 24, 2017: (a) throughout this Official Statement to reflect: (i) the acquisition of the Policy and the Reserve Policy; (ii) information about the Insurer; and (iii) revisions to the legal documents to include provisions required by the Insurer; and (b) under the captions “THE COMMUNITY FACILITIES DISTRICT—Special Tax Delinquencies” and “SPECIAL RISK FACTORS—Special Tax Delinquencies” to reflect updated information about delinquent Special Tax payments by landowners within the District.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Bonds, certain sections of the Indenture, the security for the Bonds, special risk factors, the District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors’ rights.

Copies of such documents may be obtained from the office of the Controller of the Santa Margarita Water District, 26111 Antonio Parkway, Rancho Santa Margarita, California 92688.

## **REFUNDING PLAN**

### **General**

The 2007 Bonds maturing, which are currently outstanding in the aggregate principal amount of \$49,405,000, were issued pursuant to the Original Indenture, as amended and supplemented by the First Amendment to Bond Indenture, dated as of October 19, 2001, the First Supplemental Bond Indenture, dated as of April 1, 2003, and the Second Supplemental Bond Indenture, dated as of May 1, 2007, each by and between the District and the Trustee. The District plans to apply a portion of the proceeds of the Bonds, together with moneys held in funds and accounts established under the Indenture, to refund all outstanding 2007 Bonds.

Under an Escrow Agreement (2007 Bonds), dated as of August 1, 2017 (the “**Escrow Agreement**”), by and between the District and the Trustee, as escrow bank (the “**Escrow Bank**”), the District will deliver a portion of the proceeds of the Bonds to the Escrow Bank for deposit in an escrow fund (the “**Escrow Fund**”) established under the Escrow Agreement on or about the date of issuance of the Bonds. In addition, the Escrow Bank will deposit certain moneys held in connection with the 2007 Bonds in the Escrow Fund on or about the date of issuance of the Bonds.

From the moneys on deposit in the Escrow Fund and the investment earnings thereon, the Escrow Bank will pay, on September 1, 2017, the redemption price of the 2007 Bonds.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Grant Thornton LLP, Minneapolis, Minnesota (the “**Verification Agent**”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the 2007 Bonds will be defeased pursuant to the provisions thereof as of the date of issuance of the Bonds.

The portion of the proceeds of the Bonds and the moneys held in connection with the 2007 Bonds that are deposited with the Escrow Bank are pledged solely to the payment of the redemption price of the 2007 Bonds, and will not be available for the payments of principal of and interest on the Bonds.

### Verification of Mathematical Computations

Upon the issuance of the Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the adequacy of the moneys deposited in the Escrow Fund to pay the redemption price of the 2007 Bonds; and (b) the computations of yield of the Bonds which support Bond Counsel's opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

### SOURCES AND USES OF FUNDS

The Bond proceeds and other available funds will be applied as follows:

#### Sources of Funds

Principal Amount of Bonds	\$ 37,250,000.00
Plus Original Issue Premium	6,552,406.15
Other Available Funds <sup>(1)</sup>	<u>7,274,930.24</u>
Total Sources	<u>\$ 51,077,336.39</u>

#### Uses of Funds

Escrow Fund	\$ 50,529,396.88
Costs of Issuance <sup>(2)</sup>	<u>547,939.51</u>
Total Uses	<u>\$ 51,077,336.39</u>

<sup>(1)</sup> Reflects moneys held in funds and accounts established with respect to the 2007 Bonds.

<sup>(2)</sup> Includes Underwriter's discount, legal fees, printing costs, special tax consultant fees, Trustee fees, District administrative fees, premium for the Policy and the Reserve Policy and other costs of issuance.

### THE BONDS

#### Description of the Bonds

The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof and will be dated as of and bear interest from the date of their delivery at the rates set forth on the inside front cover page. The Bonds will be registered in the name of Cede & Co., as nominee of DTC, and will be available for purchase by Beneficial Owners under the book-entry system maintained by DTC. See Appendix E.

The principal of the Bonds and any premium due upon the redemption thereof will be payable in lawful money of the United States by check of the Trustee at the principal corporate trust office of the Trustee upon presentation and surrender of such Bonds.

Interest on the Bonds will be paid in lawful money of the United States of America commencing on September 1 and March 1 of each year, commencing on March 1, 2018 (each, an "**Interest Payment Date**"). Payment of interest on the Bonds will be made to the registered Owners thereof by check of the Trustee mailed by first class mail on each Interest Payment Date to each owner at his or her address as it appears on the registration books for the Bonds to be kept by the Trustee (the "**Bond Register**") as of the close of business on the 15th day of the month preceding any Interest Payment Date, regardless of whether such day is a business day (the "**Record Date**"). Interest payments will be made in immediately available funds by wire transfer to an account within the United States designated by any owner of at least \$1,000,000 or more in principal

amount of Bonds upon written request of such Bondowner received by the Trustee on or before the applicable Record Date.

Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) the date of authentication is an Interest Payment Date, in which event interest will be payable from such Interest Payment Date, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond, in which event interest will be payable from the dated date of the Bond; provided, however, that if at the time of authentication of any Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which interest has been paid or made available for payment. Interest due on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

So long as DTC is the securities depository for the Bonds, the Trustee will pay the principal of and interest on the Bonds to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Bonds is the responsibility of DTC Participants. See Appendix E.

The Bonds will mature and are payable on September 1 in the principal amounts and years as shown on the inside front cover page of this Official Statement.

#### **Authority for Issuance**

The Bonds were authorized in a special election held in the District on February 24, 1999. The Bonds are being issued pursuant to the Indenture.

The District was established on February 24, 1999. At that time, bonded indebtedness in the amount of \$109,000,000 was authorized pursuant to the Act, the aforementioned special election and a resolution adopted by the Board of Directors of the Water District (the “**Board of Directors**”), acting as the legislative body of the District. Under the provisions of the Act, because there were fewer than 12 registered voters residing within the District at the time of the election, the owners of the land within the District were entitled to cast one vote for each acre or portion of an acre of land which they owned within the District. At the special election held on February 24, 1999, the landowners within the District voted to authorize the District to incur bonded indebtedness in an amount not to exceed \$109,000,000 and to approve, for the purpose of repaying the bonded indebtedness, an annual levy of Special Taxes within the District, pursuant to the Rate and Method of Apportionment of Special Tax. See the caption “THE COMMUNITY FACILITIES DISTRICT—Summary of Formation Proceedings.”

As of the date of issuance of the Bonds, \$104,680,000 of the authorized bonded indebtedness for the District has been issued. \$4,320,000 of authorized bonded indebtedness for the District has not yet been issued and remains available to be issued. The District does not plan to covenant to refrain from issuing bonds under such authorization.

#### **Purpose of the Bonds**

The Bonds are being issued: (i) to provide for the current refunding of the District’s 2007 Bonds, which are currently outstanding in the aggregate principal amount of \$49,405,000; (ii) to purchase the Reserve Policy from the Insurer for deposit in the 2017A Bond Reserve Account; and (iii) to pay costs of issuance of the Bonds, including but not limited to the premium for the Policy to be issued by the Insurer insuring the payment of principal of and interest on the Insured Bonds.



## **Optional Redemption**

The Bonds maturing on or before September 1, 2027 are not subject to optional call and redemption prior to their respective maturity dates. The Bonds maturing on or after September 1, 2028 may be redeemed prior to maturity on September 1, 2027 or any date thereafter, at the option of the District, from any source of funds, in whole or in part, in the order of maturity selected by the District and by lot within a maturity, in integral multiples of \$5,000, at a redemption price equal to the principal amount of the Bonds to be redeemed plus interest accrued thereon to the date of redemption, without premium.

## **Mandatory Redemption from Special Tax Prepayments**

The Bonds are subject to mandatory redemption prior to their stated maturities on any Interest Payment Date from moneys derived by the District from Special Tax prepayments, selected among maturities as provided in the Indenture and by lot within a maturity, in integral multiples of \$5,000, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i><b>Redemption Dates</b></i>	<i><b>Redemption Prices</b></i>
March 1, 2018 through March 1, 2025	103%
September 1, 2025 and March 1, 2026	102
September 1, 2026 and March 1, 2027	101
September 1, 2027 and thereafter	100

The Trustee will select Bonds for redemption pursuant to the Indenture from the maturities of all Bonds so that the ratio of Outstanding Bonds to the Bonds initially issued will be approximately the same in each maturity.

## **Notice of Redemption**

So long as the Bonds are held in book-entry form, notice of redemption will be sent by the Trustee only to DTC, or its nominee, and not to the Beneficial Owners. It is the responsibility of DTC and its participants, and not of the District or the Trustee, to deliver notices of redemption to the Beneficial Owners of the Bonds.

When Bonds are due for redemption under the Indenture, the Trustee shall give notice in the name of the District of the redemption of such Bonds; provided, however that a notice of a redemption to be made will be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the Bonds to be redeemed. Such notice of redemption must: (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all the Bonds of one maturity are to be redeemed, the bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as specified by the Trustee. Such notice will further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof together with any premium and interest accrued to the redemption date, and that from and after such date interest thereon will cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Trustee will mail a copy of such notice by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing in the Bond Register. The actual receipt by the Owner of any Bond of notice of such redemption will not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice will affect the validity of the proceedings for the redemption of

such Bonds the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as provided in the Indenture be conclusive as against all parties and the Owner will not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice will be given by the Trustee to DTC and the Municipal Securities Rulemaking Board, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in the Indenture.

### **Purchase of Bonds by District**

In lieu, or partially in lieu, of optional or mandatory redemption, as discussed above, the District may elect, prior to the selection of Bonds for redemption by the Trustee, to instruct the Trustee to purchase Bonds at public or private sale at such prices as the District may in its discretion determine; provided that the purchase price thereof (including brokerage or other expenses) may not exceed the principal amount thereof plus accrued interest to the purchase date and, in the case of purchase with funds in an optional redemption account, applicable premium.

### **Registration of Exchange or Transfer**

The registration of any Bond may be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Trustee, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee and duly executed by the Bondowner or his or her attorney.

The District and the Trustee may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Trustee will not be affected by any notice to the contrary. The District and the Trustee may rely on the address of a Bondowner as it appears in the Bond Register for any and all purposes. It is the duty of the Bondowner to give written notice to the Trustee of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and issue. The Trustee may not collect from the Bondowner any charge for any new Bond issued upon any exchange or transfer, but may require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds are surrendered for registration of transfer or exchange, the District will execute and the Trustee will authenticate and deliver a new Bond or Bonds of the same issue and maturity, for a like aggregate principal amount. The Trustee is not required to register transfers or make exchanges of: (i) Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

Appendix B contains a summary of additional provisions of the Indenture.

### **Debt Service Schedule**

The debt service schedule for the Bonds and the 2014B Bonds is as follows:

**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA) OF THE SANTA MARGARITA WATER DISTRICT  
DEBT SERVICE SCHEDULE**

<i>Year Ending September 1</i>	<i>Series 2017A Bonds</i>			<i>2014B Bonds</i>			<i>Total Debt Service All Bonds</i>
	<i>Principal</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Principal</i>	<i>Interest</i>	<i>Debt Service</i>	
2017	\$ -	\$ -	\$ -	\$ 1,200,000.00	\$ 1,402,487.50	\$ 2,602,487.50	\$ 2,602,487.50
2018	1,740,000.00	1,717,742.22	3,457,742.22	1,250,000.00	1,354,487.50	2,604,487.50	6,062,229.72
2019	1,915,000.00	1,628,200.00	3,543,200.00	1,365,000.00	1,304,487.50	2,669,487.50	6,212,687.50
2020	2,060,000.00	1,570,750.00	3,630,750.00	1,475,000.00	1,249,887.50	2,724,887.50	6,355,637.50
2021	2,250,000.00	1,488,350.00	3,738,350.00	1,615,000.00	1,176,137.50	2,791,137.50	6,529,487.50
2022	2,450,000.00	1,398,350.00	3,848,350.00	1,755,000.00	1,095,387.50	2,850,387.50	6,698,737.50
2023	2,640,000.00	1,305,350.00	3,945,350.00	1,905,000.00	1,007,637.50	2,912,637.50	6,857,987.50
2024	2,845,000.00	1,199,750.00	4,044,750.00	2,060,000.00	912,387.50	2,972,387.50	7,017,137.50
2025	3,100,000.00	1,057,500.00	4,157,500.00	2,275,000.00	809,387.50	3,084,387.50	7,241,887.50
2026	3,360,000.00	912,500.00	4,272,500.00	2,410,000.00	714,837.50	3,124,837.50	7,397,337.50
2027	3,655,000.00	744,500.00	4,399,500.00	2,595,000.00	594,337.50	3,189,337.50	7,588,837.50
2028	3,935,000.00	561,750.00	4,496,750.00	2,790,000.00	464,587.50	3,254,587.50	7,751,337.50
2029	4,265,000.00	365,000.00	4,630,000.00	3,000,000.00	325,087.50	3,325,087.50	7,955,087.50
2030	3,035,000.00	151,750.00	3,186,750.00	380,000.00	175,087.50	555,087.50	3,741,837.50
2031	-	-	-	380,000.00	161,312.50	541,312.50	541,312.50
2032	-	-	-	400,000.00	147,062.50	547,062.50	547,062.50
2033	-	-	-	415,000.00	132,062.50	547,062.50	547,062.50
2034	-	-	-	420,000.00	116,500.00	536,500.00	536,500.00
2035	-	-	-	440,000.00	95,500.00	535,500.00	535,500.00
2036	-	-	-	470,000.00	73,500.00	543,500.00	543,500.00
2037	-	-	-	485,000.00	50,000.00	535,000.00	535,000.00
2038	-	-	-	<u>515,000.00</u>	<u>25,750.00</u>	<u>540,750.00</u>	<u>540,750.00</u>
TOTAL	\$ 37,250,000.00	\$ 14,101,492.22	\$ 51,351,492.22	\$ 29,600,000.00	\$ 13,387,912.50	\$ 42,987,912.50	\$94,339,404.72

Source: PFM Financial Advisors LLC.

## **SECURITY FOR THE BONDS**

The Bonds are payable from Special Taxes that are included on the regular property tax bills sent by the County Treasurer to the record owners of property within the District. The principal of and interest on the Bonds are secured by a lien upon and pledge of the revenues from the collection of the Special Taxes that are levied on property in the District. The Bonds and the 2014B Bonds are equally secured by the lien upon and pledge of the Special Tax revenues. The Indenture provides that the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged to the payment of the principal of, premium, if any, and interest on the Bonds and the 2014B Bonds (and any Parity Bonds that may be issued in the future), and that such pledge constitutes a first lien on the Net Taxes and such other amounts.

The Indenture defines “Net Taxes” as Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses and minus the portion of any Prepayment that is not required to be deposited in the Special Tax Fund pursuant to the Indenture.

The Indenture defines “Gross Taxes” as the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to all legal fees and expenses, court costs, consultant and title insurance fees and expenses. See the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax” and Appendix A.

The Bonds, the 2014B Bonds and any Parity Bonds issued in the future are payable equally from: (i) the annual Special Taxes to be levied and collected on all property within the District that is subject to the Special Taxes; and (ii) proceeds, if any, from the sale of such property for delinquency of such Special Taxes, exclusive of any penalties and interest, and net of costs of collection and amounts set aside to pay Administrative Expenses. The Bonds are also payable from moneys and securities deposited in the 2017A Bond Reserve Account. The amount of Special Taxes that may be levied in the District in any year is strictly limited by the maximum rates that have been approved by the qualified electors in the District. See the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax” and Appendix A.

Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) will constitute a trust fund for the benefit of the Owners of the Bonds, the 2014B Bonds and any Parity Bonds issued in the future, to be applied to the payment of the principal of, and interest on, the Bonds, the 2014B Bonds and any Parity Bonds issued in the future. So long as the Bonds and the 2014B Bonds remain Outstanding, amounts in the Special Tax Fund may not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture (as such term is defined in the Original Indenture). Special Taxes and other amounts, if any, deposited in the Administrative Expense Account of the Special Tax Fund, the Rebate Fund and the Surplus Fund are not pledged to the payment of any of the Bonds or the 2014B Bonds, and none of such funds or such accounts will be construed as a trust fund held for the benefit of the Owners of the Bonds.

The District has the authority and is obligated to cause the levy and collection of the Special Taxes in an amount determined according to a methodology which the Board of Directors and the qualified electors in the District have approved (i.e., the Rate and Method of Apportionment of Special Tax). See the caption “—The Special Taxes.” However, Article XIII C of the California Constitution may allow the voters in the District (or perhaps in the Water District), under certain conditions, to adopt an ordinance by initiative that would reduce or repeal the Special Taxes. See the caption “SPECIAL RISK FACTORS—Voter Initiatives and State Constitutional Provisions.” The Rate and Method of Apportionment of Special Tax apportions the total Special Tax Requirement (i.e., principal and interest and restoration of the Reserve Account, if required)

each year among the taxable parcels in the District. See the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax.”

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE WATER DISTRICT, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE WATER DISTRICT BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

### **The Special Taxes**

The District has covenanted to levy the Special Taxes in an amount sufficient to pay: (i) the principal (including Sinking Fund Payments) of and interest on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future when due; (ii) to the extent permitted by law, the Administrative Expenses; and (iii) any amount required to replenish the Reserve Account to the Reserve Requirement. Any Special Tax levy is limited, however, to the maximum rates of Special Taxes authorized by the qualified electors of the District, as set forth in the Rate and Method of Apportionment of Special Tax, and no assurance can be given that the necessary amounts will in fact be collected in any given year. See the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax” and Appendix A.

The Special Taxes will be billed with property taxes and collected by the County Treasurer. Any Special Taxes levied on leasehold or other possessory interests in property in the District will be collected by the County Treasurer on the unsecured tax roll of the County. When received, Special Taxes will be deposited first in the Special Tax Fund and will then be transferred to and deposited first in the Administrative Expense Account, in an amount not to exceed the Administrative Expense Cap, then in the Interest Account and the Principal Account for the payment of debt service on the Bonds, and then in the Reserve Account the amount, if any, necessary to restore the Reserve Account to the Reserve Requirement. See the caption “—Special Tax Fund.”

Although the Special Taxes will be levied on taxable parcels within the District, they do not constitute a personal indebtedness of the property owners. There is no assurance that the property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See the caption “SPECIAL RISK FACTORS—Payment of Special Taxes.”

Pursuant to the Act, the amount of the Special Tax to be levied on any Assessor’s Parcel of Residential Property which is used as a private residence may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other Assessor’s Parcel within the District.

If funds are transferred by the Trustee from the Reserve Account to the Interest Account and the Principal Account to pay annual debt service on the outstanding Bonds as a result of delinquencies in the payment of the Special Taxes levied in the District, the Board of Directors will levy Special Taxes on property in the District to restore the Reserve Account to the Reserve Requirement. However, the amount of the Special Taxes that may be levied in any Fiscal Year may not exceed the maximum rates of Special Taxes that are provided for in the Rate and Method of Apportionment of Special Tax, subject to certain limitations with respect to residential property set forth in the Act, as described herein. No assurance can be given, therefore, that the Board of Directors will be able to levy a sufficient amount of Special Taxes to restore the Reserve Account to the Reserve Requirement.

## **No Teeter Plan**

The Water District has not elected to include the District in the County's Teeter Plan. Consequently, the District is exposed to the risk of delinquencies in the payment of Special Taxes levied on properties in the District, although the District is also entitled to receive interest and penalties on delinquent Special Taxes. See the caption "THE COMMUNITY FACILITIES DISTRICT—Special Tax Delinquencies."

## **The 2014B Bonds**

The Outstanding 2014B Bonds are secured by a lien and charge upon the Net Taxes and other amounts deposited in the Special Tax Fund (except the Administrative Expense Account) that is on a parity with the lien and charge upon the Net Taxes and such other amounts that secure payment of the Bonds. The 2014B Bonds are currently outstanding in the aggregate principal amount of \$29,600,000. On September 1, 2017, 2014B Bonds will mature and be paid in the aggregate principal amount of \$1,200,000.

## **Debt Service Coverage**

Table 1 provides debt service coverage percentages from Net Taxes with respect to total debt service on the Bonds and the 2014B Bonds. The Net Tax amount shown in Table 1 for the Bond Year ending September 1, 2018 for Developed Property is the total amount of Net Tax revenues that would be available if the Special Tax were levied in Fiscal Year 2017-18 at approximately 66.77% of the Assigned Special Tax rate on parcels for which building permits had been issued as of March 1, 2017. The Net Tax amounts shown in Table 1 for the Bond Year ending September 1, 2019 and for all subsequent Bond Years were determined based on a levy at 100% of the Assigned Special Tax rates. However, the Net Tax amounts shown in Table 1 for such Bond Years were determined based on building permits that had been issued as of March 1, 2017. The District does not anticipate that Special Taxes will be levied on Undeveloped Property.

The Special Tax levied against any parcel of Residential Property may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other parcel in the District. This requirement, which is derived from Section 53321 of the Act, could limit the District's ability to levy sufficient Special Taxes to produce the Net Tax amounts shown in Table 1. Pursuant to Section 53321 of the Act, under no circumstances will the Special Tax levied in any Fiscal Year against any parcel used for private residential purposes be increased as a consequence of delinquency or default by the owner of any other parcel or parcels within by more than 10% above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults. For such purposes, a parcel will be considered used for private residential purposes not later than the date on which an occupancy permit for private residential use is issued.

Pursuant to the Rate and Method of Apportionment of Special Tax, parcels for which building permits had been issued as of March 1, 2017 are considered to be Developed Property. However, no construction may have occurred on such parcels as of that date. The table assumes that there will be no further development of property in the District.

**TABLE 1**  
**DEBT SERVICE COVERAGE**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA) OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

<i>Bond Year Ending September 1</i>	<i>Residential Developed Property Net Taxes<sup>(1)(2)</sup></i>	<i>Non-Residential Developed Property Net Taxes<sup>(3)</sup></i>	<i>Annual Administration Fee<sup>(4)</sup></i>	<i>2014B Bonds Debt Service</i>	<i>Series 2017A Bonds Debt Service</i>	<i>Total Debt Service</i>	<i>Net Coverage From Developed Property</i>
2018	\$ 5,820,574	\$ 356,516	\$ 75,796	\$ 2,604,488	\$ 3,457,742	\$ 6,062,230	100.64% <sup>(5)</sup>
2019	6,503,153	544,586	145,681	2,669,488	3,543,200	6,212,688	111.10
2020	6,652,787	555,478	148,595	2,724,888	3,630,750	6,355,638	111.08
2021	6,834,765	566,587	151,567	2,791,138	3,738,350	6,529,488	111.03
2022	7,011,928	577,919	154,598	2,850,388	3,848,350	6,698,738	110.99
2023	7,178,623	589,477	157,690	2,912,638	3,945,350	6,857,988	110.97
2024	7,345,214	601,267	160,844	2,972,388	4,044,750	7,017,138	110.95
2025	7,580,472	613,292	164,061	3,084,388	4,157,500	7,241,888	110.88
2026	7,743,190	625,558	167,342	3,124,838	4,272,500	7,397,338	110.87
2027	7,943,643	638,069	170,689	3,189,338	4,399,500	7,588,838	110.83
2028	8,113,741	650,831	174,102	3,254,588	4,496,750	7,751,338	110.83
2029	8,327,017	663,847	177,584	3,325,088	4,630,000	7,955,088	110.79
2030	8,493,557	677,124	181,136	555,088	3,186,750	3,741,838	240.24
2031	8,663,428	690,667	184,759	541,313	0	541,313	1,693.91
2032	8,836,697	704,480	188,454	547,063	0	547,063	1,709.63
2033	9,013,431	718,570	192,223	547,063	0	547,063	1,743.82
2034	9,193,699	732,941	196,068	536,500	0	536,500	1,813.71
2035	9,377,573	747,600	199,989	535,500	0	535,500	1,853.44
2036	9,565,125	762,552	203,989	543,500	0	543,500	1,862.68
2037	9,756,427	777,803	208,069	535,000	0	535,000	1,930.12
2038	<u>9,951,556</u>	<u>793,359</u>	<u>212,230</u>	<u>540,750</u>	<u>0</u>	<u>540,750</u>	<u>1,947.79</u>
Total	N/A	N/A	N/A	\$ 40,385,425	\$ 51,351,492	\$ 91,736,917	N/A

<sup>(1)</sup> Fiscal Year 2017-18 Net Taxes for residential Developed Property based on estimated levy of approximately 66.77% of Assigned Special Tax rate and development status as of March 1, 2017. As of March 1, 2017, 3,501 residential units, comprising 9,509,851 residential building square feet, were considered residential Developed Property. Fiscal Year 2018-19 Net Taxes for residential Developed Property based on actual Fiscal Year 2017-18 Net Taxes minus a delinquency contingency escalated by the percentage change in annual debt service (2.48%), plus 10%. Amounts for Fiscal Years 2019-20 through 2028-29 assume no additional development, and Net Taxes for residential Developed Property escalated by the percentage change in annual debt service. Net Taxes for residential Developed Property escalate by 2% in each Fiscal Year thereafter. Assumes no additional development.

<sup>(2)</sup> Pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other parcel within the District by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults. As a result, it is possible that the Water District may not be able to increase the tax levy to the Assigned Special Tax in all years.

<sup>(3)</sup> Fiscal Year 2017-18 Net Taxes for non-residential Developed Property based on estimated levy of approximately 66.77% of Assigned Special Tax rate and development status as of March 1, 2017. As of March 1, 2017, 62.30 commercial acres were considered non-residential Developed Property. Net Taxes for non-residential Developed Property for Fiscal Year 2018-19 and each Fiscal Year thereafter based on 100% of Assigned Special Tax rate. Net Taxes for non-residential Developed Property escalate by 2% in each Fiscal Year. Assumes no additional development.

<sup>(4)</sup> Fiscal Year 2017-18 annual administration fee based on levy for administrative expenses and County collection fee. Annual administration fee for Fiscal Year 2018-19 and each year thereafter based on administrative expense cap for each bond year (i.e. \$100,000 escalated by 2% per bond year beginning September 2, 2000).

<sup>(5)</sup> Estimated Fiscal Year 2017-18 levy includes a delinquency contingency in the amount of \$39,062, which is included for purposes of calculating debt service coverage.

Source: David Taussig & Associates, Inc.

## **Special Tax Fund**

The Indenture establishes a fund to be held by the Trustee designated the Community Facilities District No. 99-1 (Talega) Special Tax Fund (the “**Special Tax Fund**”). All moneys received from the annual Special Taxes levied and collected within the District and earnings thereon and net proceeds from the sale of property for delinquent Special Taxes will be deposited in the Special Tax Fund and, except as otherwise authorized by the Indenture, will be used for the purpose of paying the principal of, and interest on, the Bonds, the 2014B Bonds and any Parity Bonds issued in the future, paying Administrative Expenses of the District and restoring the Reserve Account to the Reserve Requirement.

The Special Taxes received by the Trustee from the District will be deposited into the Special Tax Fund; provided that any amount received by the District as a complete or partial prepayment of Special Taxes will be deposited in the funds and accounts (and in the respective amounts) specified in a certificate of the Special Tax Administrator delivered to the Trustee. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) will constitute a trust fund held for the benefit of the Owners of the Bonds and the 2014B Bonds to be applied to the payment of interest on and principal of the Bonds, the 2014B Bonds and any Parity Bonds issued in the future. So long as any of the Bonds, the 2014 Bonds and any Parity Bonds issued in the future or interest thereon remain outstanding, amounts in the Special Tax Fund will not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Moneys held by the Trustee in the Special Tax Fund and the accounts and subaccounts therein may be invested in certain Authorized Investments, which are identified in the Indenture. See Appendix B.

The Trustee will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth below, in the following order of priority, to:

- (1) The Administrative Expense Account;
- (2) The Interest Account;
- (3) The Principal Account;
- (4) The Redemption Account;
- (5) The Reserve Account;
- (6) The Rebate Fund; and
- (7) The Surplus Fund.

### **Administrative Expense Account**

The Trustee will, not less often than annually, transfer from the Special Tax Fund and deposit in the Administrative Expense Account from time to time amounts necessary to make timely payment of Administrative Expenses upon the direction of the District; provided, however, that the total amount of the deposits into the Administrative Expense Account in any Bond Year will not exceed the Administrative Expense Cap until such time as there has been deposited in the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds, 2014B Bonds and any Parity Bonds issued in the future due in such Bond Year and there has been deposited in the Reserve Account the amount, if any, required in order to cause the amount on deposit therein to equal the Reserve Requirement. In addition to the foregoing, the Trustee will also deposit in the Administrative Expense Account the portion of any prepayment directed to be deposited in the certificate of the Special Tax Administrator delivered to the Trustee in connection with such Prepayment. The Indenture defines “**Administrative Expense Cap**” as the amount of \$100,000, with such amount escalating by 2% per



Bond Year beginning September 2, 2000. The estimated Administrative Expenses for Fiscal Year 2017-18 are \$77,111.

**Pursuant to the Indenture, moneys in the Administrative Expense Account will not be held in trust for the benefit of the Owners of the Bonds and will not be available for the payment of debt service on the Bonds.**

### **Interest Account and Principal Account**

The principal of and interest due on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future until maturity, other than principal due upon redemption, will be paid by the Trustee from the Principal Account and the Interest Account, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future will be made when due, the Trustee will make the following transfers from the Special Tax Fund on each Interest Payment Date first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of the Bonds, the 2014B Bonds or any Parity Bonds issued in the future, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency will be made up by an immediate transfer from the applicable subaccount within the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account will be equal to the installment of interest due on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account will be used for the payment of interest on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future as the same become due after application for such purpose of moneys on deposit in the Capitalized Interest Subaccount of the Interest Account.

(b) To the Principal Account, an amount such that the balance in the Principal Account on September 1 of each year will equal: (i) the principal payment due on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future maturing on such September 1; (ii) the Sinking Fund Payment due on any outstanding Bonds, 2014B Bonds and any Parity Bonds issued in the future on such September 1; and (iii) any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account will be used for the payment of the principal of such Bonds, 2014B Bonds and any Parity Bonds issued in the future, as the same become due at maturity or pursuant to the Sinking Fund Payment schedules set forth in the Indenture and in any Supplemental Indenture.

In addition to the transfers to the Interest Account and Principal Account described above, the Trustee will also transfer thereto such portions of a Prepayment as are directed to be so transferred in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the Prepayment.

### **Redemption Account**

After the deposits have been made to the Interest Account and the Principal Account, the Trustee will transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds, the 2014B Bonds or any Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be so deposited in the Redemption Account and applied to optionally redeem Bonds, 2014B Bonds and any Parity Bonds issued in the future only if immediately following such transfer and redemption the amount in the Reserve Account will equal the Reserve Requirement.

Moneys set aside in the Redemption Account will be used solely for the purpose of redeeming Bonds, 2014B Bonds and any Parity Bonds issued in the future and will be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds, the 2014B Bonds or any Parity Bonds issued in the future to be redeemed upon presentation and surrender of such Bonds, 2014B Bonds or any Parity Bonds issued in the future, as applicable; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account, as discussed above, may be used to purchase Outstanding Bonds, 2014B Bonds or any Parity Bonds issued in the future. Purchases of Outstanding Bonds, 2014B Bonds or any Parity Bonds issued in the future may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds, the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds, 2014B Bonds or any Parity Bonds issued in the future may be paid from the amount reserved in the Interest Account for the payment of interest on the next following Interest Payment Date.

### **Prepayment Account**

The Indenture also establishes in the Special Tax Fund the Prepayment Account. The Trustee will deposit in the Prepayment Account the portion of any amount received from the District representing a full or partial prepayment of Special Taxes for a parcel of property in the District which is directed to be so deposited in a certificate of the Special Tax Administrator delivered to the Trustee. Moneys on deposit in the Prepayment Account will be used solely for the purpose of redeeming Bonds, 2014B Bonds or any Parity Bonds issued in the future or to purchase Outstanding Bonds, 2014B Bonds or any Parity Bonds issued in the future in the manner specified in the Indenture. On each date on which Bonds, 2014B Bonds or any Parity Bonds issued in the future are to be redeemed from moneys on deposit in the Prepayment Account, the Trustee will withdraw from the Capitalized Interest Subaccount of the Interest Account and from the Reserve Account and deposit in the Prepayment Account the respective amounts, if any, directed to be so withdrawn and deposited in the certificate of the Special Tax Administrator. These amounts will also to be used to redeem the Bonds, 2014B Bonds or any Parity Bonds issued in the future on the selected redemption date. See the caption “THE BONDS—Mandatory Redemption from Special Tax Prepayments.”

### **Reserve Account**

The Supplemental Indenture provides that the 2014 Bond Reserve Account will be applied solely for the benefit of the 2014B Bonds and that the 2017A Bond Reserve Account will be applied solely for the benefit of the Bonds. Unless otherwise indicated, “**Reserve Account**” as used in this Official Statement means the Reserve Account established in the Special Tax Fund pursuant to the Indenture, including the 2014 Bond Reserve Account and the 2017A Bond Reserve Account.

The Indenture provides that there will be maintained in the Reserve Account an amount equal to the Reserve Requirement. The “**Reserve Requirement**” is, as of any date of calculation by the District, an amount equal to the lowest of: (i) 10% of the original proceeds of the Bonds, the 2014B Bonds and any Parity Bonds issued in the future, less original issue discount, if any, plus original issue premium, if any; or (ii) Maximum Annual Debt Service on the Outstanding Bonds, 2014B Bonds and any Parity Bonds issued in the future; or (iii) 125% of average Annual Debt Service on the Outstanding Bonds, 2014B Bonds and any Parity Bonds issued in the future. As of the date of delivery of the Bonds, the Reserve Requirement for the Bonds and the 2014B Bonds will be \$5,454,759.03.

There will be established within the Reserve Account separate subaccounts for each series of Parity Bonds, which subaccounts will be applied solely for the benefit of the applicable series of Parity Bonds. Moneys in the 2014 Bond Reserve Account within the Reserve Account will be applied for the purposes described in clauses (a)(i) – (iii) below solely for the benefit of the 2014B Bonds and, subject to the provisions

governing the Reserve Policy, moneys and securities in the 2017A Bond Reserve Account within the Reserve Account will be applied for the purposes described in clauses (a)(i) – (iii) below solely for the benefit of the Bonds. See Appendix B.

On the date of the issuance of the Bonds, the Reserve Policy in the stated amount of \$3,053,405.32 will be deposited in the 2017A Bond Reserve Account, which will cause the total amount in the 2017A Bond Reserve Account and the 2014 Bond Reserve Account to equal the Reserve Requirement. The District is not obligated: (i) to make any additional deposits into the 2017A Bond Reserve Account in the event that the Insurer defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of the Insurer. Under the terms of the Reserve Policy, the Insurer will unconditionally and irrevocably guarantee to pay that portion of the scheduled principal and interest on the Bonds that becomes due for payment but shall be unpaid by reason of nonpayment by the District.

Notwithstanding any provision of the Indenture to the contrary, the amounts in each subaccount of the Reserve Account will be applied as follows:

(a) Moneys in each subaccount of the Reserve Account will be used solely for the purpose of: (i) paying the principal of, including Sinking Fund Payments, and interest on the related series of Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account are insufficient therefor; (ii) making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District; and (iii) making any transfer to the Prepayment Account required pursuant to the Indenture. If the amounts in the Interest Account or the Principal Account are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds, 2014B Bonds or other Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee will withdraw solely from the applicable subaccount of the Reserve Account for deposit in the Interest Account, the Principal Account or the Rebate Fund, as applicable, moneys necessary for such purposes. The Trustee may not withdraw moneys or securities from a subaccount within the Reserve Fund relating to a series of Parity Bonds to cover an insufficiency with respect to a different series of Parity Bonds. See Appendix B under the caption “MISCELLANEOUS—Reserve Policy Provisions” for a description of additional terms of the Indenture that relate to the Reserve Policy.

(b) Whenever moneys are withdrawn from a subaccount within the Reserve Account, after making the required transfers described in clauses (a)(i) – (iii) above for the related series of Parity Bonds, the Trustee will transfer to the applicable subaccount within the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such subaccount within the Reserve Account to amount that, together with amounts held in other subaccounts within the Reserve Account relating to other series of Parity Bonds, will cause the total amount in all subaccounts within the Reserve Account to equal the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Interest Account or the Principal Account for the next succeeding Interest Payment Date. If amounts in the Special Tax Fund or otherwise transferred to replenish a subaccount within the Reserve Account are inadequate to cause the total amount held in all subaccounts within the Reserve Account to equal the Reserve Requirement, then the District will include in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates the amount necessary fully to restore such subaccount to an amount that, together with amounts held in other subaccounts within the Reserve Account relating to other series of Parity Bonds, will cause the total amount in all subaccounts within the Reserve Account to equal the Reserve Requirement.

(c) In connection with an optional redemption of a series of Parity Bonds under the Indenture, or a partial defeasance of a series of Parity Bonds in accordance with the Indenture, amounts in the applicable subaccount of the Reserve Account relating to such series of Parity Bonds may be applied to such optional redemption or partial defeasance so long as the total amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for a series of Outstanding Parity Bonds, amounts in the applicable subaccount of the Reserve Account relating to such series of Parity Bonds may be applied to pay the principal of and interest due on such series of Parity Bonds in such final Bond Year. Moneys in any subaccount of the Reserve Account that cause the total amount in the Reserve Account to be in excess of the Reserve Requirement which are not transferred in accordance with the preceding provisions will be withdrawn from the applicable subaccount of the Reserve Account on each Interest Payment Date and transferred to the Interest Account.

(e) The District may satisfy the Reserve Requirement to deposit a specified amount in the 2017A Bond Reserve Account or any subaccount of the Reserve Account relating to Parity Bonds (other than the 2014 Bond Reserve Account) by the deposit of: (i) a surety bond; (ii) a municipal bond insurance policy; (iii) an unconditional irrevocable letter of credit; or (iv) any other security device, in each case issued by providers whose long term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, is rated, at the time such security device is issued, "AA-" or better by S&P Global Ratings, an S&P Financial Services LLC business ("S&P"). The Reserve Policy constitutes a qualified surety bond under the Indenture.

### **Covenant for Superior Court Foreclosure**

In the event of a delinquency in the payment of any installment of Special Taxes, the District is authorized by the Act to order institution of an action in the Superior Court of the County to foreclose any lien therefor. Such an action may result in the real property subject to such Special Taxes being sold at judicial foreclosure sale. The ability of the District to foreclose the lien of delinquent Special Taxes may be limited in certain instances, such as by the bankruptcy of the property owner, and may require prior consent of the obligor in the event that the property is owned by or in receivership of the Federal Deposit Insurance Corporation. See the captions "SPECIAL RISK FACTORS—Bankruptcy" and "SPECIAL RISK FACTORS—FDIC/Federal Government Interests in Properties."

The District has covenanted, in the Indenture, that: (i) it will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; (ii) it will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied for such Fiscal Year; and (iii) it will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of five years or more or in an amount in excess of \$10,000, so long as: (a) the amount in the Reserve Account is at least equal to the Reserve Requirement; and (b) with respect to the Bonds, the 2014B Bonds and any Parity Bonds issued in the future, the District is not in default in the payment of the principal of or interest on the Bonds and the 2014B Bonds or any such Parity Bonds.

If the Reserve Account is depleted, there could be a default or a delay in payments to Owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds. However, within the limits of the Rate and Method of Apportionment of Special Tax, the District may increase the Special Taxes levied on all taxable property within the District to provide an amount required to pay debt service on the Bonds and to replenish the Reserve Account. However, pursuant to the Rate and Method of Apportionment of Special Tax, the amount of the Special Tax to be levied on any Assessor's Parcel of Residential Property which is used as a private residence may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District. See the caption "THE COMMUNITY FACILITIES DISTRICT—Rate and Apportionment of Special Tax."

## Issuance of Parity Bonds

Upon satisfaction of certain conditions specified below, the District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and the 2014B Bonds for any purposes authorized under the Act. Parity Bonds may be issued for the purpose of defeasing and refunding all or a portion of the Outstanding Bonds, if Annual Debt Service on the Bonds will be no more than before the issuance of such Parity Bonds.

The District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds, the 2014B Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture for any purposes authorized under the Act. Parity Bonds may be issued subject to the following additional specific conditions:

(a) The District is in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect has been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds has been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds has been provided for by a Supplemental Indenture duly adopted by the District which specifies the following:

(i) The purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including payment of all costs and the funding of all reserves incidental to or connected with such issuance;

(ii) The authorized principal amount of such Parity Bonds;

(iii) The date and the maturity date or dates of such Parity Bonds, provided that: (1) each maturity date shall fall on a September 1; (2) all such Parity Bonds of like maturity shall be identical in all respects, except as to number; and (3) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(iv) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(v) The denominations and method of numbering of such Parity Bonds;

(vi) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(vii) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(viii) The form of such Parity Bonds; and

(ix) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District has received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee is directed by the District to accept any of such documents bearing a prior date):

(i) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(ii) A written request of the District as to the delivery of such Parity Bonds;

(iii) An opinion of Bond Counsel and/or general counsel to the District to the effect that: (1) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (2) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (3) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(iv) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(v) A certificate from one or more Independent Financial Consultants which, when taken together, certify that:

(1) the Value of District Property is at least three times the sum of the aggregate principal amount of Outstanding Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt with respect to all taxable property in the District;

(2) the Value of Developed Property is at least three and one-half times the sum of the Overlapping Debt allocable thereto plus that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Developed Property (collectively, the "**Parity Debt for Developed Property**"). For the foregoing purpose, there will be allocated to the Developed Property the largest principal amount of Parity Debt for Developed Property that results in: (I) the maximum Special Taxes that may be levied on Developed Property (not including any parcels of Developed Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the Rate and Method of Apportionment of Special Tax) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Developed Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Property for such Fiscal Year of taxation; and (II) a Value of Developed Property at least three and one-half times the sum of Parity Debt for Developed Property plus Overlapping Debt allocable to Developed Property;

(3) the Value of Near Term Property is at least three times the sum of the Overlapping Debt allocable thereto plus that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Near Term Property (collectively, the **“Parity Debt for Near Term Property”**). For the foregoing purpose, there will be allocated to the Property the largest principal amount of Parity Debt for Near Term Property that results in: (I) the maximum Special Taxes that may be levied on Near Term Property (not including any parcels of Near Term Property with delinquent Special Taxes and assuming taxation as “Developed Property” as defined in the Rate and Method of Apportionment of Special Tax) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Near Term Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Near Term Property for such Fiscal Year of taxation; and (II) a Value of Near Term Property equal to at least three times the sum of Parity Debt for Near Term Property plus Overlapping Debt allocable to Near Term Property; and

(4) the Value of Undeveloped Property is at least two and one-half times the sum of the Overlapping Debt allocable thereto plus that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Undeveloped Property (collectively, the **“Parity Debt for Undeveloped Property”**). For the foregoing purpose, there will be allocated to the Undeveloped Property the largest principal amount of Parity Debt for Undeveloped Property that results in: (I) the maximum Special Taxes that may be levied on Undeveloped Property (not including any parcels of Undeveloped Property with delinquent Special Taxes and assuming taxation as “Undeveloped Property” as defined in the Rate and Method of Apportionment of Special Tax) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Undeveloped Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Undeveloped Property for such Fiscal Year of taxation; and (II) a Value of Undeveloped Property equal to at least two and one-half times the sum of Parity Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property;

provided, however, that no parcel of property may be included in any of the foregoing determinations if there is, at the time of any such determination, a delinquency in the payment of any *ad valorem* real property taxes or Special Taxes levied on such parcel. Administrative Expenses in each Fiscal Year will be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Parity Debt for each of Developed Property, Near Term Property and Undeveloped Property, respectively.

The amount of Parity Bonds permitted to be issued will be the largest integral multiple of \$5,000 that is not greater than the remainder of: (a) the sum of (x) the Parity Debt for Developed Property, as specified in the certificate of the Special Tax Administrator delivered pursuant to clause (2) above; (y) the Parity Debt for Near Term Property, as specified in the certificate of the Special Tax Administrator delivered pursuant to clause (3) above; plus (z) the Parity Debt for Undeveloped Property, as specified in the certificate of the Special Tax Administrator delivered pursuant to clause (4) above; less (b) the then aggregate principal amount of Outstanding Bonds.

The foregoing provisions do not apply to Parity Bonds issued for the principal purpose of refunding Outstanding Bonds or 2014B Bonds if the District has received a certificate from an Independent Financial Consultant to the effect that Annual Debt Service after the issuance of such Parity Bonds will be no larger than Annual Debt Service would have been prior to the issuance of such Parity Bonds in each Fiscal Year in which Bonds, 2014B Bonds or Parity Bonds (other than the refunding Parity Bonds) will remain Outstanding.

(vi) Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

Policy Costs (as such term is defined in Appendix B) that are due and owing to the Insurer will be included in the calculation of debt service for purposes of the foregoing tests.

The Indenture does not permit the District to issue bonds that have a lien on or pledge of Net Taxes that is superior to the Parity Bonds. The Indenture does not impose any condition or limitation on the issuance by the District of bonds which are payable from Net Taxes on a subordinate basis to Parity Bonds. The issuance of any such subordinate bonds would increase the total amount of bonded indebtedness which is secured by special taxes levied on property in the District.

The District currently has \$4,320,000 of remaining unissued bond authorization. See the caption “THE BONDS—Authority for Issuance.” The District may elect to issue bonds in the future under such authorization, and the District does not plan to covenant to refrain from issuing bonds under such authorization.

### **Property Values**

As of January 1, 2016, the total assessed value reported by the County Assessor for the taxable property in the District was \$2,874,746,066. The assessed values of property in the District discussed in this Official Statement are from the County Assessor’s assessment roll for Fiscal Year 2016-17 (as of the January 1, 2016 lien date). These assessed values represent the “full cash value” of such property as determined by the County Assessor. Pursuant to rules of the State Board of Equalization that govern the County Assessor’s valuation of property in the District, “full cash value” of real property means the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any enforceable governmental restrictions) would transfer for cash or its equivalent under prevailing market conditions. These rules also provide that when valuing property as a result of a change in ownership for consideration it shall be rebuttably presumed that the consideration valued in money (i.e., the purchase price), whether paid in money or otherwise, is the full cash value of the property. Pursuant to the California Constitution, the full cash value of property may reflect from year to year the inflationary rate not to exceed 2% for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

No assurance can be given, therefore, that the assessed value of property in the District will not be reduced by the County Assessor for Fiscal Year 2017-18 or for any subsequent Fiscal Year. See the caption “SPECIAL RISK FACTORS—Reduction of Assessed Values.”

Assessed values, as determined by the County Assessor, may not reflect the actual market value of property in the District (e.g., homes in the District might sell for more or less than the County Assessor’s assessed value). The District does not intend to have an appraisal prepared to estimate the market value of any property in the District.



Table 2 shows annual changes in assessed valuations for the District for Fiscal Years 2007-08 through 2016-17.

**TABLE 2**  
**ANNUAL CHANGES IN ASSESSED VALUATION**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA)**  
**OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

<i>Fiscal Year</i>	<i>Taxable Property Net Assessed Value<sup>(1)</sup></i>	<i>Percent Change</i>	<i>Developed Property Net Assessed Value<sup>(1)(2)</sup></i>	<i>Percent Change</i>	<i>Number of Developed Parcels<sup>(2)</sup></i>
2007-08	\$2,654,048,690	N/A%	\$2,605,332,542	N/A%	3,148
2008-09	2,739,073,093	3.20	2,700,910,237	3.67	3,275
2009-10	2,493,996,033	(8.95)	2,462,193,869	(8.84)	3,306
2010-11	2,439,321,479	(2.19)	2,422,268,072	(1.62)	3,333
2011-12	2,399,341,992	(1.64)	2,383,368,857	(1.61)	3,344
2012-13	2,421,326,044	0.92	2,407,503,451	1.01	3,352
2013-14	2,399,787,965	(0.89)	2,385,688,969	(0.91)	3,352
2014-15	2,631,090,567	9.64	2,623,627,329	9.97	3,364
2015-16	2,719,103,506	3.35	2,713,613,145	3.43	3,393
2016-17	2,874,746,066 <sup>(3)</sup>	5.72	2,872,656,365	5.86	3,414

<sup>(1)</sup> As of January 1 of each year, as provided by the County Assessor.

<sup>(2)</sup> Based on development status as of March 1 of each year.

<sup>(3)</sup> Excludes two parcels (186 units) that are owned by Jamboree-Tal Housing II and Jamboree-Tal Housing LP. Such parcels receive a full welfare exemption from the County Assessor due to affordability restrictions and are not taxed for *ad valorem* purposes. See Tables 4 and 5 under the caption “—Direct and Overlapping Debt and Value-to-Lien Ratios.”

Source: David Taussig & Associates, Inc.

## Direct and Overlapping Debt and Value-to-Lien Ratios

Table 3 shows the total property taxes, assessments and other charges that were levied on property in the District in Fiscal Year 2016-17 and the existing authorized indebtedness payable from taxes and assessments that may be levied within the District as of July 1, 2017, including the 2014B Bonds that mature on September 1, 2017, and also shows the principal amount of the Bonds. Other outstanding debt shown in the table consists of general obligation bonds of The Metropolitan Water District of Southern California (“MWD”), special tax bonds of Community Facilities District No. 90-2 of the Capistrano Unified School District (“CFD No. 90-2”), including bonds issued by CFD No. 90-2 for its Improvement Area No. 2002-1 (the “**Improvement Area**”), and Property-Assessed Clean Energy (“PACE”) Program debt. All property in the District is also located within CFD No. 90-2, but only a portion of the property in the District is located in the Improvement Area. See the caption “—Other Financing Districts.”

The land within the District is also located within the Water District’s Improvement District Nos. 7 and 7A, which have authority to issue general obligation bonds for in the aggregate principal amount of \$40,000,000 and \$57,000,000, respectively. Principal of and interest on bonds issued for Improvement Area Nos. 7 or 7A would be paid from *ad valorem* assessments levied on the assessed value of land within the applicable improvement district. None of such authorized debt has been issued and the Board of Directors of the Water District has covenanted not to issue any general obligation bonds on behalf of Improvement District Nos. 7 or 7A. See the caption “INTRODUCTION—Improvement District Nos. 7 and 7A.”

**TABLE 3**  
**DIRECT AND OVERLAPPING DEBT SUMMARY**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA) OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

<i>Overlapping Debt</i> <sup>(1)</sup>	<i>Fiscal Year 2016-17 Total Levy</i>	<i>Amount of Levy on Parcels in District</i>	<i>Percent of Levy on Parcels in District</i>	<i>Total Debt Outstanding</i> <sup>(2)</sup>	<i>District Share of Total Debt Outstanding</i>
Capistrano Unified School District CFD No. 90-2 <sup>(3)</sup>	\$ 2,576,327	\$ 2,576,327	100.0000%	\$33,020,000	\$ 33,020,000
Capistrano Unified School District CFD No. 90-2, IA No. 2002-1 <sup>(4)</sup>	3,500,171	3,500,171	100.0000	39,590,000	39,590,000
MWD	112,727,311	100,619	0.0893	74,905,000	66,859
PACE Programs <sup>(5)</sup>	N/A	N/A	N/A	N/A	416,799
Total Direct and Overlapping Tax and Assessment Debt Allocable to the District:					\$ 73,093,658
CFD No. 99-1 Special Tax Refunding Bonds Series 2014B <sup>(2)</sup>					\$ 29,600,000
CFD No. 99-1 Special Tax Refunding Bonds Series 2017A					37,250,000
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$139,943,658

<sup>(1)</sup> The Water District has covenanted not to issue any general obligation bonds on behalf of Improvement District Nos. 7 or 7A. See the caption "INTRODUCTION—Improvement District Nos. 7 and 7A."

<sup>(2)</sup> As of March 2, 2017.

<sup>(3)</sup> CFD No. 90-2 has covenanted not to issue additional parity bonds except for refunding purposes. Such covenant is for the benefit of the owners of the CFD No. 90-2 bonds and there can be no assurance that CFD No. 90-2 will comply with such covenant in the future or that such covenant can be enforced. CFD No. 90-2 is authorized to issue bonds in the total amount of \$50,000,000. To date, approximately \$9,300,000 in bonds remain unissued.

<sup>(4)</sup> The Improvement Area encompasses only a portion of the District. The Improvement Area has covenanted not to issue additional parity bonds except for refunding purposes. Such covenant is for the benefit of the owners of the Improvement Area bonds and there can be no assurance that CFD No. 90-2 will comply with such covenant in the future or that such covenant can be enforced. CFD No. 90-2 is authorized to issue bonds for the Improvement Area in the total amount of \$50,000,000. To date, approximately \$300,000 in bonds remain unissued.

<sup>(5)</sup> A total of 11 property owners in the District are participating in the California Home Energy Renovation Opportunity PACE Program as of June 30, 2016. In addition, one property owner in the District is participating in the CaliforniaFIRST PACE Program as of June 30, 2016. David Taussig & Associates, Inc. is not aware of any other property owners within the District that are participating in any other active PACE Programs.

Source: David Taussig & Associates, Inc.

Table 4 shows assessed value-to-lien ratios for parcels in the District. The value of the land within the District is significant because in the event of a delinquency in the payment of Special Taxes, the District may foreclose only against delinquent parcels. Dividing the Fiscal Year 2016-17 adjusted net assessed value of the taxable property within the District (\$2,908,553,891) by the sum of the principal amount of the Bonds of \$37,250,000 and the principal amount of the 2014B Bonds of \$29,600,000 results in an estimated assessed value to lien ratio of 43.51 to 1. Dividing the Fiscal Year 2016-17 adjusted net assessed value of the taxable property within the District by the sum of the principal amount of the Bonds, the principal amount of the 2014B Bonds and the \$73,093,658 of additional overlapping general obligation special tax bonds and PACE program liens that are allocable to property within the District, as set forth in Table 3 above, results in an estimated assessed overlapping value-to-lien ratio of 20.78 to 1 for property in the District. The estimated assessed overlapping value-to-lien ratios for individual parcels vary.

**TABLE 4**  
**ESTIMATED VALUE-TO-LIEN RATIOS BY OWNERSHIP (ASSESSED VALUE ONLY)**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA) OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

<i>Property Classification/Owner<sup>(1)</sup></i>	<i>Number of Units/Acres</i>	<i>Estimated Fiscal Year 2017-18 Special Tax Levy</i>	<i>Percentage of Fiscal Year 2017-18 Special Tax Levy</i>	<i>Outstanding District Bond Amount<sup>(3)(4)</sup></i>	<i>CUSD CFD No. 90-2 Outstanding Bond Amount<sup>(5)</sup></i>	<i>CUSD CFD No. 90-2 1A Outstanding Bond Amount<sup>(5)(6)</sup></i>	<i>MWD Outstanding Bond Amount<sup>(5)</sup></i>	<i>PACE Programs Outstanding Bond Amount<sup>(7)</sup></i>	<i>Total Direct and Overlapping Debt</i>	<i>Fiscal Year 2016-17 Net Assessed Value<sup>(8)</sup></i>	<i>Estimated Assessed Value-to-Lien Ratio<sup>(10)</sup></i>
<b>DEVELOPED PROPERTY</b>											
Residential Property <sup>(2)</sup>											
Jamboree-Tal Housing II	62 units	\$ 39,503	0.64%	\$ 427,516	\$ 236,213	\$ 0	\$ 0	\$ 0	\$ 663,729	\$ 8,426,575 <sup>(9)</sup>	12.70
Jamboree-Tal Housing LP	124 units	79,007	1.28	855,031	472,427	0	0	0	1,327,458	25,381,250 <sup>(9)</sup>	19.12
Ora Alora 36 LLC	9 units	23,177	0.38	250,825	138,587	281,008	235	0	670,656	10,107,931	15.07
SP Talega LLC	9 units	22,694	0.37	245,605	135,703	275,160	167	0	656,636	7,192,572	10.95
Other Owners	<u>3,297 units</u>	<u>5,656,192</u>	<u>91.57</u>	<u>61,212,722</u>	<u>31,438,467</u>	<u>38,889,311</u>	<u>62,222</u>	<u>416,799</u>	<u>132,019,521</u>	<u>2,675,365,931</u>	<u>20.26</u>
Residential Property Subtotal	3,501 units	\$5,820,574	94.23%	\$62,991,699	\$32,421,397	\$39,445,480	\$62,624	\$416,799	\$135,338,000	\$2,726,474,259	20.15
Non-Residential Property <sup>(2)(3)</sup>											
Batido I LLC	7.49 acres	\$ 42,842	0.69%	\$ 463,652	\$ 60,112	\$ 0	\$ 296	\$ 0	\$ 524,060	\$ 12,727,275	24.29
Talega Village Center LLC	9.63 acres	55,082	0.89	596,115	71,145	144,520	708	0	812,488	30,438,480	37.46
Other Owners	<u>45.19 acres</u>	<u>258,591</u>	<u>4.19</u>	<u>2,798,533</u>	<u>467,346</u>	<u>0</u>	<u>3,182</u>	<u>0</u>	<u>3,269,062</u>	<u>136,824,176</u>	<u>41.85</u>
Non-Resid. Property Subtotal	62.30 acres	\$ 356,516	5.77%	\$ 3,858,301	\$ 598,603	\$ 144,520	\$ 4,186	\$ 0	\$ 4,605,610	\$ 179,989,931	39.08
Developed Property Subtotal		\$6,177,089	100.00%	\$66,850,000	\$33,020,000	\$39,590,000	\$66,810	\$416,799	\$139,943,610	\$2,906,464,190	20.77
<b>UNDEVELOPED PROPERTY</b>											
Batido I LLC	1.37 acres	\$ 0	0.00%	\$ 0	\$ 0	\$ 0	\$ 43	\$ 0	\$ 43	\$ 1,827,450	42,998.71
Talega Associates	<u>16.03 acres</u>	<u>0</u>	<u>0.00</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>0</u>	<u>6</u>	<u>262,251</u>	<u>42,992.51</u>
Undeveloped Property Subtotal	17.41 acres	\$ 0	0.00%	\$ 0	\$ 0	\$ 0	\$ 49	\$ 0	\$ 49	\$ 2,089,701	42,997.93
<b>GRAND TOTAL</b>	N/A	\$6,177,089	100.00%	\$66,850,000	\$33,020,000	\$39,590,000	\$66,859	\$416,799	\$139,943,658	\$2,908,553,891	20.78

(1) Reflects ownership as of January 1, 2016 provided by the County of Orange Assessor.

(2) Developed property based on building permits issued as of March 1, 2017.

(3) Allocated based on share of estimated Fiscal Year 2017-18 levy.

(4) Includes 2014B Bond debt.

(5) As of March 2, 2017. Allocated based on share of estimated Fiscal Year 2016-17 levy.

(6) The Improvement Area encompasses only a portion of the District.

(7) A total of 11 property owners in the District are participating in the California Home Energy Renovation Opportunity PACE Program as of June 30, 2016. In addition, one property owner in the District is participating in the CaliforniaFIRST PACE Program as of June 30, 2016. David Taussig & Associates, Inc. is not aware of any other property owners within the District that are participating in any other active PACE Programs.

(8) Fiscal Year 2016-17 net assessed values as of January 1, 2016 provided by the County Assessor unless otherwise noted.

(9) Fiscal Year 2016-17 gross assessed values as of January 1, 2016 provided by the County Assessor. These parcels receive a welfare exemption from the County Assessor as of January 1, 2016 due to affordability restrictions and are not taxed for *ad valorem* purposes.

(10) Fiscal Year 2016-17 Net Assessed Value divided by Total Direct and Overlapping Debt.

Source: David Taussig & Associates, Inc.

Table 5 shows the estimated assessed value-to-lien ratios for parcels of Developed Property in the District based on allocations of the principal amounts of the Bonds and the 2014B Bonds and allocations of the principal amounts of overlapping debt that are payable from taxes levied on such parcels. The table also shows the numbers of parcels that have similar assessed value-to-lien ratios.

**TABLE 5**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**  
**BY CATEGORY FOR DEVELOPED PROPERTY**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA) OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

<i>Estimated Assessed Value-to-Lien Ratio<sup>(1)</sup></i>	<i>Number of Parcels</i>	<i>Fiscal Year 2016-17 Net Assessed Value<sup>(2)</sup></i>	<i>Estimated Fiscal Year 2017-18 Special Tax Levy</i>	<i>Percentage of Estimated Fiscal Year 2017-18 Special Tax Levy</i>	<i>Outstanding District Bond Amount<sup>(3)</sup></i>	<i>Total Overlapping Debt<sup>(4)</sup></i>	<i>Total Direct and Overlapping Debt</i>
20:1 and above	1,592	\$1,403,379,853	\$2,851,509	46.16%	\$30,859,746	\$18,669,758	\$ 49,529,504
15:1 to 19.99:1	1,428	1,254,991,247	2,592,280	41.97	28,054,303	42,841,854	70,896,157
10:1 to 14.99:1	327	233,869,906	633,405	10.25	6,854,868	10,465,038	17,319,906
5:1 to 9.99:1	50	12,188,170	72,163	1.17	780,964	735,784	1,516,748
3:1 to 4.99:1	9	1,093,863	12,052	0.20	130,430	121,343	251,773
Less than 3:1 <sup>(5)</sup>	<u>8</u>	<u>941,151</u>	<u>15,680</u>	<u>0.25</u>	<u>169,689</u>	<u>259,833</u>	<u>429,522</u>
Total	3,414	\$2,906,464,190	\$6,177,089	100.00%	\$66,850,000	\$73,093,610	\$139,943,610

<sup>(1)</sup> Fiscal Year 2016-17 Net Assessed Value divided by Total Direct and Overlapping Debt.

<sup>(2)</sup> Fiscal Year 2016-17 Net Assessed Values as of January 1, 2016 provided by the County Assessor for all but two parcels (186 units) that are owned by Jamboree-Tal Housing II and Jamboree-Tal Housing LP. Such parcels receive a full welfare exemption from the County Assessor due to affordability restrictions and are not taxed for *ad valorem* purposes. For purposes of the above table, Fiscal Year 2016-17 gross assessed values (land and improvements) as of January 1, 2016, as provided by the County Assessor, are included.

<sup>(3)</sup> Allocated based on estimated Fiscal Year 2017-18 levy. Includes 2014B Bonds.

<sup>(4)</sup> As of March 2, 2017. Allocated based on Fiscal Year 2016-17 levy. A total of 11 property owners in the District are participating in the California Home Energy Renovation Opportunity PACE Program as of June 30, 2016. In addition, one property owner in the District is participating in the CaliforniaFIRST PACE Program as of June 30, 2016. David Taussig & Associates, Inc. is not aware of any other property owners within the District that are participating in any other active PACE Programs.

<sup>(5)</sup> Includes eight parcels with base year values set before the year 1990 pursuant to Propositions 60/90, or which receive disabled veterans exemptions from the County Assessor.

Source: David Taussig & Associates, Inc.

## Other Financing Districts

The Capistrano Unified School District (the “**School District**”) has established CFD No. 90-2, which includes all of the property in the District. CFD No. 90-2 is authorized to issue bonds in the total amount of \$50,000,000, of which \$40,700,000 has been issued to date. CFD No. 90-2 has issued bonds which are currently outstanding in the aggregate principal amount of \$33,020,000. These bonds are secured by special taxes that are levied on property in the District.

The Board of Trustees of the School District also conducted proceedings pursuant to the Act to designate the Improvement Area over portions of the property in CFD No. 90-2 for the purpose of issuing not to exceed \$50,000,000 of additional bonds of CFD No. 90-2 (the “**Improvement Area Bonds**”), of which \$49,700,000 has been issued to date. The Improvement Area includes most of the property in the District. The Improvement Area Bonds are currently outstanding in the aggregate principal amount of \$39,590,000. The Improvement Area Bonds are also secured by special taxes that are levied on property in the District.

The land within the District is also located within the Water District’s Improvement District Nos. 7 and 7A, which have authority to issue general obligation bonds for in the aggregate principal amount of \$40,000,000 and \$57,000,000, respectively. Principal of and interest on bonds issued for Improvement Area Nos. 7 or 7A would be paid from *ad valorem* assessments levied on the assessed value of land within the applicable improvement district. None of such authorized debt has been issued and the Board of Directors of the Water District has covenanted not to issue any general obligation bonds on behalf of Improvement District Nos. 7 or 7A. See the caption “INTRODUCTION—Improvement District Nos. 7 and 7A.”

The District is not aware of any plans by the School District to issue additional bonds in the future. However, the District has no control over the amount of additional debt that is payable from taxes or assessments levied on all or a portion of the property within the District which may be incurred in the future by other governmental agencies, including but not limited to the County, the City of San Clemente, the School District or any other governmental agency that has jurisdiction over all or a portion of the property within the District. Furthermore, nothing prevents the owners of property within the District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent that such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or *ad valorem* property taxes, such assessments, special taxes and taxes will be secured by liens on the property within the District on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the District could increase, without any corresponding increase in the value of the property, and thereby severely reduce the ratio that exists at the time that the Bonds are issued of the value of the property to the debt secured by the Special Taxes and other taxes and assessments which may be levied on the property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the District to pay the Special Taxes when due. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes.

## BOND INSURANCE

*The information under this caption has been prepared by the Insurer for inclusion in this Official Statement. None of the District, the Water District or the Underwriter has reviewed this information, nor do the District, the Water District or the Underwriter make any representation with respect to the accuracy or completeness thereof. The following information is not a complete summary of the terms of the Policy and reference is made to Appendix F for a specimen of the Policy.*



## **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“**BAM**”) will issue its Municipal Bond Insurance Policy for the below-described Insured Bonds (the “**Policy**”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds maturing on September 1 of the years 2029 and 2030, inclusive (together, the “**Insured Bonds**”) when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“**S&P**”), which rating was affirmed on June 26, 2017. An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Insured Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Insured Bonds will not be revised or withdrawn.

## ***Capitalization of BAM***

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$504.2 million, \$71.5 million and \$432.7 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the caption “BOND INSURANCE” and in Appendix F.

#### ***Additional Information Available from BAM***

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the Underwriter for the Bonds, and the issuer and Underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Insured Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## **THE COMMUNITY FACILITIES DISTRICT**

### **Location**

The District consists of approximately 2,149 gross acres of land which is located in the southwest part of the Water District, approximately 2.6 miles east of the Pacific Ocean at its nearest point. The Water District is located east of Interstate 5 in the southern portion of the County, approximately 50 miles southeast of Los Angeles and approximately 17 miles southeast of Santa Ana, the County seat. The District is also located in the City of San Clemente. The City of San Juan Capistrano is adjacent to the southwestern boundary of the District, and the northwestern boundary of the District is approximately four miles east of the junction of Interstate 5 and Interstate 405. The Water District is bounded on the north and east by the Cleveland National Forest and on the south by the San Diego County line and the Camp Pendleton Marine Base. The Water District includes approximately the eastern half of the territory within the City of Mission Viejo, all of the territory of the City of Rancho Santa Margarita and the portion of territory within the City of San Clemente that is located in the District.

## **The Development Project**

The land within the District is part of the approximately 3,510 acre Talega Project, which includes residential neighborhoods with single family homes ranging in size from approximately 1,660 square feet to over 6,000 square feet, townhomes ranging in size from approximately 1,000 square feet to over 2,300 square feet and 548 apartment units. 362 of such apartment units have prepaid the Special Taxes that secure the Bonds in full. The Talega Project also includes parks and sports fields, the Talega Athletic and Swim Club, open space and trails, an elementary school and a championship golf course. As of January 1, 2016, the net assessed value of taxable property in the District was \$2,874,746,066.

Development activity in the Talega Project began in 1998 and the first sales of new homes commenced in 1999. The Talega Project is substantially built out. As of March 1, 2017, building permits have been issued for all 3,863 planned residential units. An elementary school and 70 acres of public parks have been constructed and are in use.

The development plan for the Talega Project also provided for the development of approximately 13.29 acres that were designated for commercial uses and approximately 66.86 acres that were designated for business park uses. As of March 1, 2017, approximately 146,000 square feet of commercial buildings had been constructed and occupied on the approximately 13.29 acres designated for commercial uses, and approximately 762,000 square feet of office buildings had been constructed and occupied on approximately 49 acres of the business park property. Approximately 17 acres of undeveloped business park property have yet to be developed. The 18-hole Fred Couples-designed championship golf course, Talega Golf Club, opened for play in January 2001.

The following retail and commercial properties are located within the District:

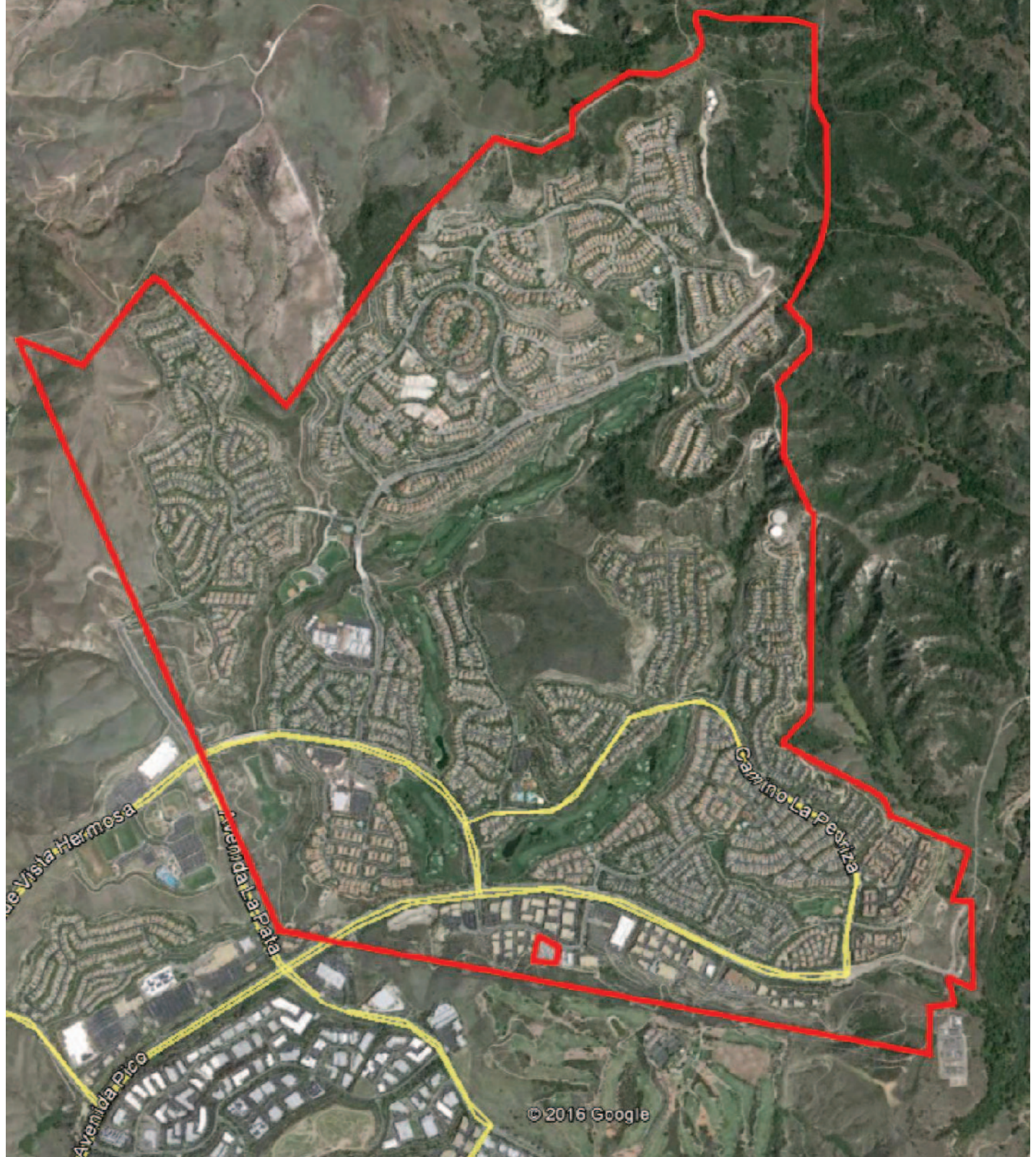
The Talega Village Center is a community shopping center that is located in the center of the Talega Project and anchored by a Ralphs Fresh Fare supermarket. The shopping center includes approximately 107,000 building square feet that is subject to the Special Tax. There are more than 20 national retailers, local boutiques, restaurants and services including the Ralphs supermarket, restaurants, cafes, fitness centers, banks and a spa. The property is owned by Talega Village Center LLC, which leases the buildings to the various tenants.

Courtyards at Talega is a neighborhood shopping center located at the southwest boundary of the District. Only a portion of the shopping center is located within the District. The portion of the shopping center that is located in the District includes approximately 39,000 building square feet. The center includes various restaurants and service providers. The property is owned by several entities, which lease space to the various tenants.

The Talega Business Park is located along a one mile stretch on the south side of Avenida Pico and includes approximately 45 office buildings. The various buildings in the business park are owned by different entities.



**Santa Margarita Water District  
Community Facilities District No. 99-1  
(Talega)**



## **Summary of Formation Proceedings**

Pursuant to the Act, on January 22, 1999, the Board of Directors of the Water District adopted Resolution No. 99-01-06, declaring its intention to establish the District, and Resolution No. 99-01-07 declaring its intention that the District incur bonded indebtedness.

At the conclusion of the public hearings on February 24, 1999, the Board of Directors adopted Resolution No. 99-02-02 establishing the District and its boundaries and approving the Rate and Method of Apportionment of Special Tax for the District. The Board of Directors also adopted Resolution No. 99-02-03 determining the necessity of the District incurring bonded indebtedness in an aggregate principal amount not to exceed \$109,000,000. Both of these resolutions called a special election to submit propositions to authorize the levy of the Special Taxes and incurring the bonded indebtedness to the qualified voters of the District.

At a special election held on February 24, 1999, the owners of the property within the boundaries of the District authorized the District to incur bonded indebtedness in an amount not to exceed \$109,000,000 and approved the Rate and Method of Apportionment of Special Tax to pay the principal of and interest on the bonds of the District. The purpose of the indebtedness to be incurred is to finance the acquisition or construction of various public improvements and facilities located in or serving the District as specified therein. On February 24, 1999, the Board of Directors also adopted Ordinance No. 99-02-01 authorizing the levy of the Special Tax on taxable property in the District pursuant to the Rate and Method of Apportionment of Special Tax, which Ordinance was amended on July 28, 1999 pursuant to Ordinance No. 99-07-01. On March 15, 1999 a Notice of Special Tax Lien was recorded in the office of the County Recorder of the County. At an election on July 28, 1999 the owners of the land in the District approved a modification of the Rate and Method of Apportionment of Special Tax to reduce the acreage of Exempt Property (as such term is defined therein). An Amended Notice of Special Tax Lien was recorded on August 2, 1999.

## **Rate and Method of Apportionment of Special Tax**

The Rate and Method of Apportionment of Special Tax for the District is set forth in Appendix A. Pursuant to the Rate and Method of Apportionment of Special Tax, the Special Tax will be levied in each Fiscal Year on parcels of taxable property in the District to pay debt service on the Bonds, the 2014B Bonds and any Parity Bonds issued in the future, as described below. The terms appearing below with initial letters capitalized are defined terms in the Rate and Method of Apportionment of Special Tax.

Pursuant to the Rate and Method of Apportionment of Special Tax, the Board of Directors will levy the Special Taxes for each Fiscal Year in an amount which the Board of Directors determines will be necessary to produce revenues equal to the Special Tax Requirement (see definition in Appendix A) as follows:

*First:* The Special Tax will be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement;

*Second:* If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax will be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

*Third:* If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;



*Fourth:* If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax will be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property. Under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than 10% as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District.

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property is the greater of: (i) the amount derived by application of the Assigned Special Tax; or (ii) the amount derived by application of the Backup Special Tax. The Assigned Special Tax for Fiscal Year 2017-18 for each Land Use Class is shown in the table set forth below. The Assigned Special Tax for each Assessor's Parcel of Residential Property will equal the amount per square foot multiplied by the square footage of Residential Floor Area on such Assessor's Parcel.

<i>Land Use Class</i>	<i>Description</i>	<i>Assigned Special Tax for Fiscal Year 2017-18</i>
1	Residential Property	\$0.9166 per square foot of Residential Floor Area
2	Non-Residential Property	\$8,569.48 per Acre

The Fiscal Year 2017-18 Backup Special Tax for an Assessor's Parcel of Developed Property will be in the amount of \$0.3280 per square foot of the Assessor's Parcel. On each July 1 the Assigned Special Tax and the Backup Special Tax is increased by an amount equal to 2% of the amount in effect for the previous Fiscal Year. These increases commenced on July 1, 2000.

The above discussion is only a summary of some of the operational sections of the Rate and Method of Apportionment of Special Tax. Investors should rely on this summary only as an aid to a careful review of the Rate and Method of Apportionment of Special Tax which is set forth in Appendix A.

No assurance can be given that property owners will be able and willing to pay the Special Taxes which will be levied on properties within the District.

Tables 6, 7, 8, and 9 contain sample tax bills for Fiscal Year 2017-18 for parcels in the District that are improved either with a single family detached home or a single family attached home. All of these parcels are also located in CFD No. 90-2. Only the parcels that are shown in Tables 8 and 9 are located in the Improvement Area. The parcels shown in Tables 6 and 9 are improved with single family attached homes and the parcels shown in Tables 7 and 8 are improved with single family detached homes.

In addition, a total of eleven property owners in the District are participating in the California Home Energy Renovation Opportunity PACE Program as of June 30, 2016 and one property owner in the District is participating in the CaliforniaFIRST PACE Program as of June 30, 2016. Such programs are authorized under State law to finance certain renewable energy systems, energy efficiency and water conservation improvements. Such programs are voluntary and PACE-related assessments are levied only on property for which the property owner has elected to participate in a PACE program. For purposes of the sample tax bills that are set forth below, PACE assessments are excluded. Parcels that participate in such programs have estimated effective tax rates between approximately 1.74% and 2.33% of their respective assessed values.

**TABLE 6**  
**ESTIMATED FISCAL YEAR 2017-18 SAMPLE PROPERTY TAX BILL**  
**RESIDENTIAL PROPERTY – SINGLE FAMILY DETACHED**  
**WITHIN CAPISTRANO UNIFIED SCHOOL DISTRICT CFD NO. 90-2**  
**IMPROVEMENT AREA NO. 2002-1**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net Assessed Valuation</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$1,030,395		
NET ASSESSED VALUE <sup>(1)</sup>	\$1,023,395		
Unit Size for Single Family Detached Property <sup>(2)</sup>	3,335 Square Feet		
Lot Size for Single Family Detached Property <sup>(3)</sup>	7,441 Square Feet		
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$ 10,233.95	
Metropolitan Water District G.O. Bonds	<u>0.00350</u>	<u>35.82</u>	
Total General Property Taxes and Overrides	1.00350%	\$ 10,269.77	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
Mosquito & Fire Ant Assessment <sup>(5)</sup>		\$ 6.72	
Vector Control Charge <sup>(6)</sup>		1.92	
Metropolitan Water District West Standby Charge <sup>(7)</sup>		10.08	
Capistrano Unified School District CFD No. 90-2 <sup>(8)</sup>		952.48	\$ 1,739.63
Capistrano Unified School District CFD No. 90-2, IA No. 2002-1 <sup>(9)</sup>		2,188.09	3,179.75
Santa Margarita Water District CFD No. 99-1 <sup>(10)</sup>		<u>2,041.21</u>	<u>3,056.86</u>
Total Assessments and Parcel Charges		\$ 5,200.50	\$ 7,994.97
PROJECTED TOTAL PROPERTY TAXES		\$ 15,470.27	\$ 18,264.74
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>1.50139%</b>	<b>1.77260%</b>

<sup>(1)</sup> Based on average assessed value for 1,367 individually-owned single family detached units within the Improvement Area as of January 1, 2016, as provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 1,367 individually-owned single family detached units within the Improvement Area.

<sup>(3)</sup> Based on the average lot size for 1,367 individually-owned single family detached units within the Improvement Area.

<sup>(4)</sup> Estimated based on actual Fiscal Year 2016-17 *ad valorem* rates.

<sup>(5)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$6.72 per benefit unit. Detached residential parcels are assessed at 1 benefit unit.

<sup>(6)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>(7)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$10.08 per parcel or per acre, whichever is greater.

<sup>(8)</sup> Expected amount based on the CFD No. 90-2 Fiscal Year 2016-17 Special Tax rate of \$0.2856 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.4613 per building square foot and the Backup Special Tax rate is approximately \$0.2338 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

<sup>(9)</sup> Expected amount based on the Improvement Area Fiscal Year 2016-17 Special Tax rate of \$0.6561 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.8137 per building square foot and the Backup Special Tax rate is approximately \$18,615.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

<sup>(10)</sup> Expected amount based on the District's expected Fiscal Year 2017-18 Special Tax rate of \$0.6121 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.9166 per building square foot, and the Backup Special Tax rate is \$0.3280 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: David Taussig & Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District.

**TABLE 7**  
**ESTIMATED FISCAL YEAR 2017-18 SAMPLE PROPERTY TAX BILL**  
**RESIDENTIAL PROPERTY – SINGLE FAMILY ATTACHED**  
**WITHIN CAPISTRANO UNIFIED SCHOOL DISTRICT CFD NO. 90-2**  
**IMPROVEMENT AREA NO. 2002-1**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net Assessed Valuation</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$466,091		
NET ASSESSED VALUE <sup>(1)</sup>	\$459,091		
Unit Size for Single Family Detached Property <sup>(2)</sup>	1,528 Square Feet		
Lot Size for Single Family Detached Property <sup>(3)</sup>	2,849 Square Feet		
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$ 4,590.91	
Metropolitan Water District G.O. Bonds	<u>0.00350</u>	<u>16.07</u>	
Total General Property Taxes and Overrides	1.00350%	\$ 4,606.98	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
Mosquito & Fire Ant Assessment <sup>(5)</sup>		\$ 6.72	
Vector Control Charge <sup>(6)</sup>		1.92	
Metropolitan Water District West Standby Charge <sup>(7)</sup>		10.08	
Capistrano Unified School District CFD No. 90-2 <sup>(8)</sup>		436.40	\$ 704.87
Capistrano Unified School District CFD No. 90-2, IA No. 2002-1 <sup>(9)</sup>		1,002.52	1,243.33
Santa Margarita Water District CFD No. 99-1 <sup>(10)</sup>		<u>935.22</u>	<u>1,400.56</u>
Total Assessments and Parcel Charges		\$ 2,392.86	\$ 3,367.48
PROJECTED TOTAL PROPERTY TAXES		\$ 6,999.84	\$ 7,974.46
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>1.50182%</b>	<b>1.71092%</b>

(1) Based on average assessed value for 446 individually-owned single family attached units within the Improvement Area as of January 1, 2016, as provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for 446 individually-owned single family attached units within the Improvement Area.

(3) Based on the average lot size for 446 individually-owned single family attached units within the Improvement Area.

(4) Estimated based on actual Fiscal Year 2016-17 *ad valorem* rates.

(5) Estimated based on the Fiscal Year 2016-17 rate of \$6.72 per benefit unit. Detached residential parcels are assessed at 1 benefit unit.

(6) Estimated based on the Fiscal Year 2016-17 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

(7) Estimated based on the Fiscal Year 2016-17 rate of \$10.08 per parcel or per acre, whichever is greater.

(8) Expected amount based on the CFD No. 90-2 Fiscal Year 2016-17 Special Tax rate of \$0.2856 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.4613 per building square foot and the Backup Special Tax rate is approximately \$0.2338 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

(9) Expected amount based on the Improvement Area Fiscal Year 2016-17 Special Tax rate of \$0.6561 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.8137 per building square foot and the Backup Special Tax rate is approximately \$18,615.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

(10) Expected amount based on the District's expected Fiscal Year 2017-18 Special Tax rate of \$0.6121 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.9166 per building square foot, and the Backup Special Tax rate is \$0.3280 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: David Taussig & Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District.



**TABLE 8**  
**ESTIMATED FISCAL YEAR 2017-18 SAMPLE PROPERTY TAX BILL**  
**RESIDENTIAL PROPERTY – SINGLE FAMILY DETACHED**  
**NOT WITHIN CAPISTRANO UNIFIED SCHOOL DISTRICT CFD NO. 90-2**  
**IMPROVEMENT AREA NO. 2002-I**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net Assessed Valuation</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$770,698		
NET ASSESSED VALUE <sup>(1)</sup>	\$763,698		
Unit Size for Single Family Detached Property <sup>(2)</sup>	2,849 Square Feet		
Lot Size for Single Family Detached Property <sup>(3)</sup>	6,832 Square Feet		
<b>AD VALOREM PROPERTY TAXES<sup>(4)</sup></b>			
Basic Levy	1.00000%	\$ 7,636.98	
Metropolitan Water District G.O. Bonds	<u>0.00350</u>	<u>26.73</u>	
Total General Property Taxes and Overrides	1.00350%	\$ 7,663.71	
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>			
Mosquito & Fire Ant Assessment <sup>(5)</sup>		\$ 6.72	
Vector Control Charge <sup>(6)</sup>		1.92	
Metropolitan Water District West Standby Charge <sup>(7)</sup>		10.08	
Capistrano Unified School District CFD No. 90-2 <sup>(8)</sup>		813.67	\$ 1,597.32
Santa Margarita Water District CFD No. 99-1 <sup>(9)</sup>		<u>1,743.75</u>	<u>2,611.39</u>
Total Assessments and Parcel Charges		\$ 2,576.15	\$ 4,227.44
<b>PROJECTED TOTAL PROPERTY TAXES</b>		<b>\$ 10,239.85</b>	<b>\$ 11,891.14</b>
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>1.32865%</b>	<b>1.54291%</b>

<sup>(1)</sup> Based on average assessed value for 1,254 individually-owned single family detached units not within the Improvement Area as of January 1, 2016 provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 1,254 individually-owned single family detached units not within the Improvement Area.

<sup>(3)</sup> Based on the average lot size for 1,254 individually-owned single family detached units not within the Improvement Area.

<sup>(4)</sup> Estimated based on actual Fiscal Year 2016-17 *ad valorem* rates.

<sup>(5)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$6.72 per benefit unit. Detached residential parcels are assessed at 1 benefit unit.

<sup>(6)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>(7)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$10.08 per parcel or per acre, whichever is greater.

<sup>(8)</sup> Expected amount based on the CFD No. 90-2 Fiscal Year 2016-17 Special Tax rate of \$0.2856 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.4613 per building square foot and the Backup Special Tax rate is approximately \$0.2338 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

<sup>(9)</sup> Expected amount based on the District's expected Fiscal Year 2017-18 Special Tax rate of \$0.6121 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.9166 per building square foot, and the Backup Special Tax rate is \$0.3280 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: David Taussig & Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District.

**TABLE 9**  
**ESTIMATED FISCAL YEAR 2017-18 SAMPLE PROPERTY TAX BILL**  
**RESIDENTIAL PROPERTY – SINGLE FAMILY ATTACHED**  
**NOT WITHIN CAPISTRANO UNIFIED SCHOOL DISTRICT CFD NO. 90-2**  
**IMPROVEMENT AREA NO. 2002-1**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Net Assessed Valuation</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$467,291		
NET ASSESSED VALUE <sup>(1)</sup>	\$460,291		
Unit Size for Single Family Detached Property <sup>(2)</sup>	1,859 Square Feet		
Lot Size for Single Family Detached Property <sup>(3)</sup>	4,526 Square Feet		
AD VALOREM PROPERTY TAXES <sup>(4)</sup>			
Basic Levy	1.00000%	\$ 4,602.91	
Metropolitan Water District G.O. Bonds	<u>0.00350</u>	<u>16.11</u>	
Total General Property Taxes and Overrides	1.00350%	\$ 4,619.02	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
Mosquito & Fire Ant Assessment <sup>(5)</sup>		\$ 6.72	
Vector Control Charge <sup>(6)</sup>		1.92	
Metropolitan Water District West Standby Charge <sup>(7)</sup>		10.08	
Capistrano Unified School District CFD No. 90-2 <sup>(8)</sup>		530.93	\$ 1,058.18
Santa Margarita Water District CFD No. 99-1 <sup>(9)</sup>		<u>1,137.81</u>	<u>1,703.96</u>
Total Assessments and Parcel Charges		\$ 1,687.46	\$ 2,780.86
PROJECTED TOTAL PROPERTY TAXES		\$ 6,306.48	\$ 7,399.88
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>1.34958%</b>	<b>1.58357%</b>

<sup>(1)</sup> Based on average assessed value for 230 individually-owned single family attached units not within the Improvement Area as of January 1, 2016 provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 230 individually-owned single family attached units not within the Improvement Area.

<sup>(3)</sup> Based on the average lot size for 230 individually-owned single family attached units not within the Improvement Area.

<sup>(4)</sup> Estimated based on actual Fiscal Year 2016-17 *ad valorem* rates.

<sup>(5)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$6.72 per benefit unit. Detached residential parcels are assessed at 1 benefit unit.

<sup>(6)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>(7)</sup> Estimated based on the Fiscal Year 2016-17 rate of \$10.08 per parcel or per acre, whichever is greater.

<sup>(8)</sup> Expected amount based on the CFD No. 90-2 Fiscal Year 2016-17 Special Tax rate of \$0.2856 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.4613 per building square foot and the Backup Special Tax rate is approximately \$0.2338 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

<sup>(9)</sup> Expected amount based on the District's expected Fiscal Year 2017-18 Special Tax rate of \$0.6121 per building square foot for Developed Property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.9166 per building square foot, and the Backup Special Tax rate is \$0.3280 per parcel square foot. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: David Taussig & Associates, Inc.; County of Orange; Metropolitan Water District; Santa Margarita Water District.

Table 10 identifies the largest taxpayers in the District based on the amounts of Special Tax that is expected to be levied for Fiscal Year 2017-18 on parcels of taxable property owned by such taxpayers.

**TABLE 10**  
**ESTIMATED FISCAL YEAR 2017-18 LEVY**  
**TOP TAXPAYERS**  
**COMMUNITY FACILITIES DISTRICT NO. 99-1 (TALEGA)**  
**OF THE SANTA MARGARITA WATER DISTRICT**  
**SERIES 2017A SPECIAL TAX REFUNDING BONDS**

<i>Owner<sup>(1)</sup></i>	<i>Tax Class</i>	<i>Total Parcels Taxed</i>	<i>Estimated Fiscal Year 2017-18 Special Tax Levy</i>	<i>Percent of Total Special Tax Levied</i>
Jamboree-Tal Housing LP	Residential	1	\$79,007	1.28%
Talega Village Center LLC	Commercial	7	55,082	0.89
Batido I LLC	Commercial	1	42,842	0.69
Jamboree-Tal Housing II	Residential	1	39,503	0.64
Ora Alora 36 LLC	Residential	9	23,177	0.38
SP Talega LLC	Residential	9	22,694	0.37
Other Commercial Owners <sup>(2)</sup>	Commercial	89	258,591	4.19
Other Residential Owners	Residential	<u>3,297</u>	<u>5,656,192</u>	<u>91.57</u>
Total		3,414	\$6,177,089	100.00%

<sup>(1)</sup> Based on ownership as of January 1, 2016, as provided by the County Assessor.

<sup>(2)</sup> No owner owns more than seven parcels or is responsible for more than 0.24% of the total Special Tax.

Source: David Taussig & Associates, Inc.

### Special Tax Delinquencies

Table 11 shows historical Special Tax delinquencies for property in the District for the years shown.

**TABLE 11**  
**HISTORICAL SPECIAL TAX DELINQUENCIES**

<i>Fiscal Year</i>	<i>Total Special Tax Levy</i>	<i>Amount Delinquent (as of June 30 of Fiscal Year)<sup>(1)</sup></i>	<i>Percent of Special Tax Levy</i>	<i>Amount Delinquent as of August 2, 2017<sup>(2)</sup></i>	<i>Percent of Special Tax Levy</i>
2007-08	\$6,421,769	\$435,065	6.77%	\$ 0	0.00%
2008-09	6,712,622	305,398	4.55	0	0.00
2009-10	6,777,552	228,772	3.38	0	0.00
2010-11	6,983,332	165,011	2.36	0	0.00
2011-12	6,977,702	125,775	1.80	0	0.00
2012-13	7,053,813	78,043	1.11	550	0.01
2013-14	7,178,372	56,537	0.79	2,904	0.04
2014-15	6,998,500	100,603	1.44	3,333	0.05
2015-16	6,951,096	45,978	0.66	9,424	0.14
2016-17	7,017,880	44,501	0.63	39,062	0.56

<sup>(1)</sup> Delinquency information as of Fiscal Year end provided by the County Auditor-Controller.

<sup>(2)</sup> Amount delinquent as of August 2, 2017 provided by the County Tax Collector.

Sources: David Taussig & Associates, Inc.; County Auditor.

## **SPECIAL RISK FACTORS**

*The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. The following discussion does not purport to be comprehensive or definitive. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. The occurrence of one or more events discussed herein could adversely affect the value of the property in the District. Moreover, the occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such a failure to pay Special Taxes could result in the inability of the District to make full and punctual payments of the Bonds.*

### **The Bonds are Limited Obligations of the District**

The Bonds are limited obligations of the District payable from the Net Taxes and the moneys in certain of the funds and accounts established in the Indenture, as described herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT (EXCEPT FOR THE SPECIAL TAXES), THE WATER DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE DISTRICT, THE WATER DISTRICT OR THE COUNTY BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER FUNDS PLEDGED PURSUANT TO THE INDENTURE.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE WATER DISTRICT OR THE DISTRICT FOR WHICH THE WATER DISTRICT OR THE DISTRICT ARE OBLIGATED TO LEVY OR PLEDGE OR HAVE LEVIED OR PLEDGED GENERAL OR SPECIAL TAXES OTHER THAN THE SPECIAL TAXES REFERRED TO IN THE INDENTURE.

The District's obligation with respect to delinquent Special Taxes is limited to the institution of judicial foreclosure proceedings under the circumstances described in the Indenture. See the caption "SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure."

### **The Special Taxes are not Personal Obligations of the Property Owners**

The obligation to pay Special Taxes levied within the District does not constitute a personal obligation of the current or subsequent owners of the property in the District. Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the County Superior Court. See the caption "SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure." There is no assurance that any current or subsequent owner of a parcel that is subject to Special Taxes will be able to pay the Special Taxes, or that such owner will choose to pay such installments even though financially able to do so.

### **Risks of Real Estate Secured Investments Generally**

Because the timely payment of debt service on the Bonds will be dependent upon the timely payment of Special Taxes, which are secured ultimately by the Taxable Property within the District, the Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in and around the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural

disasters (including, without limitation, earthquakes, wildfires, high winds, landslides and floods), which may result in uninsured losses.

### **Insufficiency of Special Taxes**

Pursuant to the Rate and Method of Apportionment of Special Tax, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on its development status as determined pursuant to the Rate and Method of Apportionment of Special Tax. See Appendix A and the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax.”

The District does not expect to levy Special Taxes on parcels of undeveloped property in the District. However, the Rate and Method of Apportionment of Special Tax provides for the levy of Special Taxes on Assessor’s Parcels of Undeveloped Property if the levy of Special Taxes on Assessor’s Parcels of Developed Property at up to 100% of the Assigned Special Tax is insufficient to satisfy the Special Tax Requirement. See Appendix A and the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax.”

The Special Taxes will be billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments. Significant delinquencies in the payment of Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in depletion of the Reserve Account and a default in the payment of the Bonds. See the caption “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure” for a discussion of the provisions that apply, and the procedures that the District has covenanted to follow, in the event of delinquencies in the payment of Special Taxes. See the captions “—FDIC/Federal Government Interests in Properties” and “—Bankruptcy” for a discussion of the policy of the Federal Deposit Insurance Corporation (the “FDIC”) regarding the payment of special taxes and assessments and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

Under the Rate and Method of Apportionment of Special Tax, the annual amount of Special Tax to be levied on each taxable parcel in the District will be based on whether such parcel is Developed Property or Undeveloped Property. See the caption “THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax.” As discussed under the caption “THE COMMUNITY FACILITIES DISTRICT—The Development Project,” the District largely consists of Developed Property. However, to the extent that Undeveloped Property does not become Developed Property, the collection of a portion of the Special Taxes may be dependent on the willingness and ability of the owners of Undeveloped Property to pay such Special Taxes when due. See the caption “—Failure to Develop” for a discussion of the risks associated with unimproved property.

The Rate and Method of Apportionment of Special Tax specifies the processes for determining the amount of the Special Tax to be levied in order to equal the amount needed to be collected. Taxation of property owners at rates that are higher than is presently anticipated could have an impact on the willingness and ability of the property owners to pay such Special Taxes when due.

The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Bonds. Other funds that might be available include moneys and reserve sureties deposited in the Reserve Account, funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular property and the amount of the levy of the Special Tax against such property. Thus, there will

rarely, if ever, be a uniform relationship between the value of such property and the proportionate share of debt service on the Bonds, and certainly not a direct relationship.

The Act provides that if any property within the District that is not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property that is subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to such property is to be treated as if it were a special assessment and paid from the eminent domain award. The constitutionality and operative effect of these provisions have not been tested in the courts. If for any reason property that is subject to the Special Tax becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government, or another public agency that asserts immunity from the Special Tax, subject to the limitation of the Maximum Special Tax rates, the Special Taxes will be reallocated to the remaining properties within the District. This would result in the owners of such properties paying a greater amount of the Special Tax and could have an adverse effect on the timely payment of the Special Tax. Due to the problems associated with collecting taxes from public agencies, if a substantial portion of land within the District were to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due, and a default could occur with respect to the payment of such principal and interest.

### **Undeveloped Property**

A portion of the property within the District is undeveloped. Undeveloped property is less valuable per acre than developed property, especially if there are no plans to develop such property or if there are severe restrictions on the development of such property. Undeveloped property also provides less security to the owners of the Bonds should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. A slowdown in or cessation of the development of land in the District could impair the ability and willingness of the owners of undeveloped property to make Special Tax payments, and could greatly reduce the value of such property in the event it has to be foreclosed upon to collect delinquent Special Taxes. In addition, there is a risk that future governmental restrictions, including, but not limited to, governmental policies restricting or controlling development within the District, will be enacted, and a risk that future voter approved land use initiatives could add more restrictions and requirements on development within the District.

As of June 30, 2017 there are currently two parcels of undeveloped non-residential property totaling approximately 17 acres in the District. The District does not expect to levy Special Taxes on parcels of undeveloped property in the District. However, the Rate and Method of Apportionment of Special Tax provides for the levy of Special Taxes on Assessor's Parcels of Undeveloped Property if the levy of Special Taxes on Assessor's Parcels of Developed Property at up to 100% of the Assigned Special Tax is insufficient to satisfy the Special Tax Requirement. The District expects to levy the Special Tax on Developed Property in Fiscal Year 2017-18 at approximately 66.77% of the Assigned Special Tax Rate. See the captions "THE COMMUNITY FACILITIES DISTRICT—Rate and Method of Apportionment of Special Tax" and "SECURITY FOR THE BONDS—Debt Service Coverage" and Appendix A.

### **Property Values**

The value of property within the District is an important factor in evaluating the investment quality of the Bonds. If a property owner defaults in the payment of an installment of Special Taxes, the District's only remedy is to judicially foreclose the lien of the Special Taxes on the delinquent parcel. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed values that are described herein at a foreclosure sale for delinquent Special Taxes or for an amount that is adequate to pay delinquent Special Taxes. See the caption "SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure." Also, property values are not evenly distributed throughout the District. This disparity of values

across the District is significant because, as mentioned above, if property owners become delinquent in the payment of Special Taxes, the District's only remedy is to foreclose against delinquent parcels. See the captions "SECURITY FOR THE BONDS—Property Values" and "SECURITY FOR THE BONDS—Direct and Overlapping Debt and Value-to-Lien Ratios."

The assessed values that are set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the County Assessor, generally not to exceed an increase of more than 2% per Fiscal Year, as limited by certain State constitutional provisions. In past years, many counties in the State, including the County, have reassessed certain properties acquired at the peak of the real estate market. See the caption "SECURITY FOR THE BONDS—Direct and Overlapping Debt and Value-to-Lien Ratios" for the assessed values within the District in recent Fiscal Years. The District cannot predict whether the County will reduce assessed values within the District in future years. If the County did decide to broadly reassess assessed valuations in the County, it is possible that in future years the assessed values shown in this Official Statement could be adjusted downward from the values reflected in this Official Statement. No assurance can be given that Fiscal Year 2017-18 assessed values reflect market values.

The actual market value of the property is subject to future events such as a downturn in the economy, changes in real estate tax rates, changes in the supply of or demand for residential property in the vicinity of the District, rising home mortgage costs, the occurrence of certain acts of nature (such as earthquakes, wildfires, high winds, landslides, droughts or floods), the presence of threatened or endangered species in the District and the decisions of various governmental agencies as to land use, all of which could adversely impact the value of the land in the District which is the security for the Bonds.

### **Reduction of Assessed Values**

The District does not make any representation as to whether the assessed value of property in the District or the value-to-lien ratios for such property will remain at the assessed values or the ratios discussed in this Official Statement.

The assessed values of property in the District, as discussed herein, are taken from the County Assessor's assessment roll for Fiscal Year 2016-17 (as of the January 1, 2016 lien date). These assessed values represent the County Assessor's determination of the "full cash value" of property in the District. Pursuant to the California Constitution, the full cash value of property may reflect from year to year the inflationary rate not to exceed 2% for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

Pursuant to rules of the California State Board of Equalization that govern the County Assessor's valuation of property in the District, "full cash value" of real property means the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any enforceable governmental restrictions) would transfer for cash or its equivalent under prevailing market conditions. These rules also provide that when valuing property as a result of a change in ownership for consideration, it shall be rebuttably presumed that the consideration valued in money (i.e., the purchase price), whether paid in money or otherwise, is the full cash value of the property. This presumption may, however, be rebutted (e.g., in an assessment appeal by a property owner) by evidence that the full cash value of property is significantly more or less than the total cash equivalent of the consideration paid for the property. A significant deviation means a deviation of more than 5% of the total consideration. The Board of Equalization rules also provide that in estimating value, the assessor shall consider one or more valuation approaches, including the comparative sales approach, which is the preferred method of valuation. The rule further provides that when reliable market data are available, the preferred method of valuation is by reference to sales prices.

Accordingly, the assessed values of the property in the District could be reduced if sales prices of property in the District decline. If the County Assessor determines that sales prices for residential property or other property in the District have declined since January 1, 2016, the County Assessor could reduce assessed values of property in the District in future Fiscal Years. Also, homeowners in the District who perceive that their property will sell for less than current assessed value, may initiate statutory assessment appeals in an effort to have the assessed value of their property reduced.

The County Assessor's assessed values may not reflect the actual market value of property in the District (e.g., homes in the District might sell for more or less than the County Assessor's assessed value). The District does not intend to have an appraisal prepared to estimate the market value of any property in the District.

### **Parity Taxes and Special Assessments**

Property within the District is subject to taxes and assessments imposed by public agencies other than the District or the County that also have jurisdiction over the land within the District. See the captions "SECURITY FOR THE BONDS—Direct and Overlapping Debt and Value-to-Lien Ratios" and "SECURITY FOR THE BONDS—Other Financing Districts." The Special Taxes and any penalties and interest thereon will constitute a lien upon the lots and parcels of land in the District upon which the Special Taxes will annually be levied until they are paid. Such lien is on a parity with special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on property in the District. The District has no control, however, over the ability of other agencies and districts to incur indebtedness secured by special taxes or assessments payable from all or a portion of the property in the District. In addition, the owners of property within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by *ad valorem* taxes, special taxes or assessments. Any such special taxes or assessments will be secured by a lien on such property on a parity with the lien of the Special Taxes and any penalties and interest thereon. Such liens could reduce the estimated value-to-lien ratios described in this Official Statement or the willingness of property owners to pay the Special Tax.

### **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties in the District on the regular property tax bills sent to owners of such properties. The Special Tax installments are due and payable on the same dates, and bear the same penalties and interest for non-payment, as general *ad valorem* property tax installments. Special Tax installments cannot be paid separately from general *ad valorem* property tax payments. Therefore, the unwillingness or inability of a property owner to pay general property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make general property tax payments and Special Tax installment payments in the future.

The total amount of the Special Taxes levied on property in the District for Fiscal Year 2016-17 was \$7,017,880. As of August 2, 2017, these Special Taxes were delinquent in the amount of \$39,062 for a delinquency rate of 0.56%. See the caption "THE COMMUNITY FACILITIES DISTRICT—Special Tax Delinquencies." The Water District has not elected to include the District in the County's Teeter Plan. Consequently, the District is exposed to the risk of delinquencies in the payment of Special Taxes levied on properties in the District, although the District is also entitled to receive interest and penalties on delinquent Special Taxes. Significant delinquencies in the payment of annual Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in depletion of the Reserve Account and default in payment of debt service on the Bonds.



See the captions “SECURITY FOR THE BONDS—Reserve Account” and “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure,” for a discussion of the provisions that apply, and the procedures that the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

### **Non-Cash Payment of Special Taxes**

Pursuant to the Act, the Board of Directors, as the legislative body of the District, may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Tax or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. This would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds. In order to provide some protection against the potential adverse effect on cash flows which might be caused by the tender of Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds in full or partial payment of any Special Taxes unless the District has first received a certificate of an Independent Financial Consultant certifying that to accept such tender will not result in a reduction in the maximum Special Taxes that may be levied on the taxable property within the District in any Fiscal Year to an amount less than the sum of 110% of Annual Debt Service in the Bond Year ending on the September 1 following the end of such Fiscal Year plus the estimated Administrative Expenses for such Bond Year.

### **Disclosures to Future Purchasers of Land**

The willingness or ability of an owner of a parcel to pay Special Taxes even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization when the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel, was informed of the maximum tax rate and was informed the risk of such a levy and the ability of such owner to pay the Special Tax as well as other expenses and obligations. The District has recorded a notice of the lien of the Special Taxes for the District in the Office of the County Recorder of the County. Title insurance companies normally refer to such notices in title insurance reports. However, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser of property in the District or a lender will consider such Special Tax obligation in the purchase of such property or the lending of money secured thereby. Failure to disclose the existence of the Special Taxes or the full amount of the debt on the property in the District may affect the ability and willingness of future owners of land in the District to pay the Special Taxes when due.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel or unit that is subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

## **Potential Early Redemption of Bonds from Prepayments**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such prepayments will result in a redemption of Bonds. See the caption “THE BONDS—Mandatory Redemption from Special Tax Prepayments.”

## **Payment of Special Taxes**

The levy of special taxes can result in a significantly greater property tax burden being imposed upon properties within a community facilities district than in other areas of a city or county, and this added burden can result in problems in the collection of the special taxes. In some community facilities districts, the property owners have refused to pay the special taxes and have commenced litigation challenging the special taxes, the establishment of the District and the bonds issued by the District.

The Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties in the District on the regular property tax bills sent to owners of such properties. Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. See the caption “THE COMMUNITY FACILITIES DISTRICT—Special Tax Delinquencies.”

An owner of a taxable parcel is not personally obligated to pay the Special Taxes which are levied on his or her parcel. Rather, the Special Taxes are an obligation which is secured only by a lien upon the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to fully secure the Special Taxes, the District has no recourse against the owner.

See the captions “SECURITY FOR THE BONDS—Reserve Account” and “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure,” for a discussion of the provisions that apply, and the procedures that the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

The ability of the District to increase the amount of Special Taxes which may be levied and to pay costs of foreclosure proceedings may be limited by voter initiative. See the captions “—Voter Initiatives and State Constitutional Provisions” and “—Limitations on Remedies.”

## **Bankruptcy**

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally.

The payment of property owners’ taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to the foreclosure covenant may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See the captions “—Limitations on Remedies” and “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure.”

Bankruptcy, insolvency and other laws generally affecting creditors’ rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners’ taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to its covenant to

pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) or by the laws of California relating to judicial foreclosure. In addition, the prosecution of a foreclosure could be delayed for many reasons, including crowded local court calendars or lengthy procedural delays.

Second, the United States Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner in the District and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount and priority of any lien on property securing the payment of delinquent Special Taxes could be reduced or modified if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in an unwillingness to pay Special Taxes, a stay or other delay in prosecuting Superior Court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent Special Tax installments not being paid in full.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the ease of delinquency as *ad valorem* taxes. Pursuant to the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, enacted by Congress on April 14, 2005, the lien for special taxes established after the filing of a petition in bankruptcy will be treated thereafter as a lien for *ad valorem* taxes.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if a court concludes that the ability to pay such taxes or assessments is materially affected by reason of such service.

### **FDIC/Federal Government Interests in Properties**

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agencies such as the Federal National Mortgage Association ("FNMA") or Freddie Mac, has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding."

The foregoing is generally interpreted to mean that, unless the United States Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable State and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount that is

sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson*, 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeal, Ninth Circuit (the "**Ninth Circuit**"), held that FNMA is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see the caption "**—Insufficiency of Special Taxes.**"

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by California law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC's policy statement regarding the payment of state and local real property taxes (the "**Policy Statement**") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent that the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent that it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Act special taxes. With respect to property owned by the FDIC on January 9, 1997 and that was owned by the Resolution Trust Company (the "**RTC**") on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes from being foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

## **Geologic, Topographic and Natural Disaster Conditions**

The market value of the land and improvements within the District could be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements of the land and the continued habitability and enjoyment of such improvements. These factors include geologic conditions (such as earthquakes), topographic conditions (such as landslides) and natural disasters (such as floods, high winds, droughts and fires).

In recent years, portions of Southern California have experienced outbreaks of wildfires that have burned thousands of acres at a time and destroyed thousands of homes and structures, affecting areas near the District and resulting in the destruction of homes.

The occurrence of any of these conditions could result in damage to improvements of varying seriousness which may entail significant repair or replacement costs. Depending on the severity of the damage, repair or replacement may never occur either because of the magnitude of cost or because repair or replacement will not facilitate habitability or other use, or because other considerations may preclude such repair or replacement. Consequently, the occurrence of any of these conditions could result in a significant decrease in the market value of affected property or in such property becoming unmarketable.

The District is transacted by the Cristianitos Fault, which is considered to be inactive. According to an Environmental Impact Report prepared by the City of San Clemente with respect to the Talega Project, it is known, however, that the site will be subjected to seismic shaking of moderate to high intensities at least once during the expected lifetime of the planned improvements (i.e., 50-100 years). The nature of that shaking will depend upon the location of the focus of the earthquake responsible, the magnitude of the event, and the materials through which the seismic waves will pass prior to reaching the site. An offshore extension of the Newport-Inglewood Fault, which is considered active, lies not more than ten miles to the west of the site.

## **Endangered and Threatened Species**

In recent years, there has been an increase in activity at the State of California and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered or threatened species. At present, the vacant property within the District is not known to be inhabited by any plant or animal species which either the California Department of Fish and Wildlife or the United States Fish and Wildlife Service has listed as endangered or threatened. Nevertheless, new species are proposed to be added to the State of California and federal protected list on a regular basis. Any action by the State of California or federal governments to protect species within the District could impede the planned development within the District. This, in turn, could reduce the ability or willingness of the property owners to pay the Special Taxes when due and would likely reduce the market value of the land and the potential revenues available at a foreclosure sale for delinquent Special Taxes. See the captions “—Undeveloped Property” and “—Property Values.”

## **Hazardous Substances**

The market value of the property in the District is subject to diminution upon the future release or discovery thereon of a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or “Superfund Act,” is the most well-known and widely applicable of these laws, but State of California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels be affected by a hazardous substance, would be to reduce the marketability

and value by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has a liability related to hazardous substances with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

It is also possible that liabilities may arise in the future with respect to any of the land within the District resulting from the existence, currently, of a substance that is presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance that is not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. Any of these possibilities could significantly adversely affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

### **Voter Initiatives and State Constitutional Provisions**

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including Proposition 218, which was approved in the general election held on November 5, 1996, and Proposition 26, which was approved on November 2, 2010.

***Proposition 218.*** Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Among other things, Section 3 of Article XIII C states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.”

Significant provisions of Proposition 218 have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting that the courts interpret various aspects thereof. Proposition 218 could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

The Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless the legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Accordingly, although the matter is not free from doubt, it is likely that Article XIII C has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the District to reduce the Special Taxes in a manner that does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for administrative expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds.

Under the Indenture, the District has covenanted that it will not initiate proceedings to reduce the Maximum Special Tax rates for the District unless the District receives a certificate from an Independent Financial Consultant which certifies that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied

on then-existing Developed Property in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and Annual Debt Service in such Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved; and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and the Parity Bonds. See Appendix B under the caption “COVENANTS AND WARRANTY—Covenants” for additional conditions to the reduction of the Maximum Special Tax rates.

The District has also covenanted that, in the event that any initiative is adopted by the qualified electors that purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Rate and Method of Apportionment of Special Tax within the District or to limit the power or authority of the District to levy Special Taxes pursuant to the Rate and Method of Apportionment of Special Tax within the District, the District will commence and pursue legal action in order to preserve its ability to levy Special Taxes pursuant to the Rate and Method of Apportionment of Special Tax.

The interpretation and application of Article XIIC will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See the caption “—Limitations on Remedies.”

**Proposition 26.** On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIIC of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature.

Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes require a majority vote and taxes for specific purposes (“special taxes”) require a two-thirds vote. The Special Taxes and the Bonds were each authorized by not less than a two-thirds vote of the landowners within the District who constituted the qualified electors at the time of such voted authorization. The District believes, therefore, that issuance of the Bonds does not require the conduct of further proceedings under the Act, Proposition 218 or Proposition 26.

Like their antecedents, Proposition 218 and Proposition 26 have undergone, and are likely to undergo, both judicial and legislative scrutiny. For example, on August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the “**Court**”), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The case involved a Convention Center Facilities District (the “**CCFD**”) established by the City of San Diego. The CCFD was a financing district established under the City of San Diego’s charter (the “**Charter**”) and was intended to function much like a community facilities district established under the provisions of the Act. The CCFD was comprised of all of the real property in the entire City of San Diego. However, the special tax to be levied within the CCFD was to be levied only on properties improved with a hotel located within the CCFD.

At the election to authorize such special tax, the Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was an election limited to owners and lessees of properties on which the special tax would be levied, and not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote will be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that the CCFD special tax election did not comply with applicable requirements of Article XIII A, Section 4, and Article XIIC, Section 2, of the State Constitution, or with applicable provisions of the City of

San Diego's Charter, because the electors in such an election were not the registered voters residing within the district.

In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (*viz.*, all of the registered voters in the City of San Diego). In the case of the District, there were fewer than 12 registered voters within the District at the time of the elections to authorize the special tax levy for the District. In *City of San Diego*, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court's holding does not apply to the special tax election in the District. Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act or the levy of special taxes authorized pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the Special Tax and the issuance of bonds for the District in compliance with all applicable requirements of the Act at the time of formation of the District in 1999. Therefore, under the provisions of Sections 53341 and 53359 of the Act, the statute of limitations period to challenge the validity of the Special Tax for the District has expired.

The Water District and the District cannot predict the ultimate outcome or effect of any such judicial scrutiny, legislative actions, or future initiatives. These initiatives, and any future initiatives, may affect the collection of fees, taxes and other types of revenue by local agencies such as the District. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Bonds.

### **Ballot Initiatives and Legislative Measures**

Article XIII C was adopted pursuant to a measure that qualified for the ballot pursuant to the California Constitutional initiative process and the California Legislature has in the past enacted legislation that has altered the spending limitation or established minimum funding provisions for particular activities. On March 6, 1995, in the case of *Rossi v. Brown*, the California Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiative. From time to time, other initiative measures could be adopted by voters or legislation enacted by the California Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State of California, the County or local districts to increase revenues or appropriations or on the ability of a property owner to complete the development of property within the District.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date that the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture or the Internal Revenue Code of 1986, as amended (the "**Code**"). Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under the mandatory redemption section of the Indenture. See the caption "—Limitations on Remedies."

Pending or future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of,



the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily required financial and operating information on an annual basis, there can be no assurance that such information will be available to Bondowners on a timely basis. See the caption “CONTINUING DISCLOSURE” and Appendix D—“FORM OF CONTINUING DISCLOSURE AGREEMENT.” Any failure to provide required financial information does not give rise to monetary damages but only an action for specific performance. Occasionally, because of general market conditions, lack of current information, or the absence of a credit rating for bonds, or because of adverse history or economic prospects associated with a particular bond issue, secondary marketing practices in connection with a bond issue are suspended or terminated. Also, prices of bond issues for which a market is being made will depend upon current circumstances, and could be substantially different from the original purchase price.

### **Limitations on Remedies**

Remedies available to Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors’ rights, by equitable principles, by the exercise of judicial discretion and by limitations on legal remedies against public agencies in California. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation, or modification of Bondowner rights.

### **IRS Audit of Tax-Exempt Issues**

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar obligations).

### **Risks Associated with Bond Insurance**

In the event that the District defaults in the payment of principal of or interest on the Insured Bonds when due, the Owners of the Insured Bonds will have a claim under the Policy for such payments. See the caption “BOND INSURANCE.” In the event that the Insurer becomes obligated to make payments on the Insured Bonds, no assurance can be given that such event will not adversely affect the market for the Insured Bonds or Uninsured Bonds. In the event that the Insurer is unable to make payments of principal of or interest on the Insured Bonds when due under the Policy, the Insured Bonds will be payable solely from Net Taxes and amounts that are held in certain funds and accounts established under the Indenture, as described under the caption “SECURITY FOR THE BONDS.”

The long-term credit rating on the Insured Bonds is dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. If the long-term ratings of the Insurer are lowered,

such event could adversely affect the market for the Insured Bonds or the Uninsured Bonds. See the caption “RATINGS.”

None of the District, the Water District or the Underwriter has made an independent investigation of the claims-paying ability of the Insurer, and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is being made by the District, the Water District or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the Bonds, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds, assuming that the Policy is not available to pay principal and interest on the Insured Bonds, and the claims-paying ability of the Insurer through final maturity of the Insured Bonds.

So long as the Policy remains in effect and the Insurer is not in default of its obligations thereunder, the Insurer has certain notice, consent and other rights under the Indenture and will have the right to control all remedies in the event of a default under the Indenture as to the Insured Bonds. The Insurer is not required to obtain the consent of the Owners of the Insured Bonds with respect to the exercise of remedies. See Appendix B.

### **Forward-Looking Statements**

This Official Statement contains forward-looking statements within the meaning of the Federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions, projections and general economic conditions. Such words as “expects,” “intends,” “plans,” “believes,” “estimates,” “anticipates” or variations of such words or similar expressions are intended to identify forward-looking statements and include, but are not limited to, statements under the captions “SECURITY FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT.” The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. The District assumes no obligation to provide public updates of forward-looking statements.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the District has agreed to provide certain ongoing financial and operating data (see the caption “CONTINUING DISCLOSURE”), the District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

### **CONTINUING DISCLOSURE**

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the Bonds and the District by not later than each April 1 after the end of the District’s Fiscal Year, commencing with the report for Fiscal Year 2016-17 (the “**Annual Reports**”), and to provide notices of the occurrence of certain enumerated events. The Annual Reports will be filed by DAC, as Dissemination Agent on behalf of the District, with the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board (“**EMMA**”). The notices of enumerated events will also be filed by DAC with EMMA. The specific nature of the information to be contained in the Annual Reports and the notices of enumerated events is set forth in Appendix D. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “**Rule**”).

In the past five years:

- Although its audited financial statements were otherwise publicly available in a timely manner, the Water District linked its Fiscal Year 2011-12 through 2014-15 audited financial statements to certain of its outstanding obligations on EMMA after the date by which such audited financial statements were required to be filed, and the Water District's Fiscal Year 2012-13 audited financial statements were not linked to certain prior obligations of the Water District on EMMA.

- The Water District's Fiscal Year 2013-14 continuing disclosure annual report for certain of its outstanding obligations was filed approximately 34 days after the date by which such annual report was required to be filed and not linked on EMMA to all of such obligations.

- The Water District's continuing disclosure annual reports for Fiscal Years 2012-13 through 2015-16 did not include certain information pertaining to direct and overlapping debt and gross revenue calculations that was required to be updated pursuant to certain of the Water District's continuing disclosure undertakings.

- The Water District did not provide notices of the failure to provide the above-described annual financial information by the filing deadlines for such information.

- The Water District did not file or did not timely file certain event notices relating to rating changes of municipal bond insurers.

The Water District made additional continuing disclosure filings on EMMA to address the matters that are disclosed above.

As noted above, the District has engaged DAC as its Dissemination Agent in connection with future continuing disclosure reporting. In addition, the District adopted a debt management policy in July 2017 that includes procedures with respect to continuing disclosure compliance.

### **LEGAL OPINION**

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds, in substantially the form set forth as Appendix C, will be made available to purchasers at the time of original delivery of the Bonds.

Bond Counsel's engagement is limited to a review of the legal procedures required for the issuance of the Bonds and to rendering an opinion as to the matters set forth in Appendix C.

Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and Best Best & Krieger LLP, Riverside, California, as the District's general counsel, for the Trustee by its counsel and for the Insurer by its counsel.

### **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the interest on the Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that the interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements applicable to each, respectively.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. TAX REFORM PROPOSALS ARE BEING CONSIDERED BY CONGRESS. IT IS POSSIBLE THAT LEGISLATIVE CHANGES MIGHT BE INTRODUCED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME OR STATE TAX BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes provided that the District continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Bonds.

The form of Bond Counsel's proposed opinion with respect to the Bonds is attached hereto as Appendix C.

## **NO LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the initial delivery of the Bonds. The District is not aware of any litigation pending or threatened which questions the existence of the District or contests the authority of the District to levy and collect Special Taxes in the District or which contests the authority to issue the Bonds.

## **RATINGS**

S&P is expected to assign the rating of "AA" to the Insured Bonds based upon the delivery of the Policy by the Insurer at the time of issuance of the Bonds. S&P is also expected to assign the underlying rating of "A" to the Insured Bonds notwithstanding the delivery of the Policy, and to assign the rating of "A" to the Uninsured Bonds. There is no assurance that any credit rating given to the Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Such ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained from S&P. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District or the Water District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The District has covenanted in a Continuing Disclosure Agreement to file notices of any rating changes on the Bonds. See the caption "CONTINUING DISCLOSURE" and Appendix D. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change. Purchasers of the Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current ratings changes with respect to the Bonds after the initial issuance of the Bonds.

None of the District, the Water District or the Underwriter makes any representation as to the Insurer's creditworthiness or any representation that the Insurer's credit rating will be maintained in the future. The rating agencies have previously taken action to downgrade the ratings of certain municipal bond insurers and have published various releases outlining the processes that they intend to follow in evaluating the ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade or a downgrade. Potential investors are directed to the rating agencies for additional information on the applicable rating agencies' evaluations of the financial guaranty industry and individual financial guarantors, including the Insurer. See the caption "BOND INSURANCE" for further information relating to the Insurer.

## UNDERWRITING

The Bonds are being purchased pursuant to a purchase contract dated the date hereof between the District and Piper Jaffray & Co. (the “**Underwriter**”). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$43,559,575.21 (which represents the principal amount of \$37,250,000.00 plus an original issue premium in the amount of \$6,552,406.15 and less an Underwriter’s discount in the amount of \$242,830.94). The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The initial offering prices stated on the inside front cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

The Underwriter has entered into a distribution agreement (“**Distribution Agreement**”) with Charles Schwab & Co., Inc. (“**CS&Co.**”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

## FINANCIAL INTERESTS

In connection with issuance of the Bonds, fees payable to certain professionals, including the Underwriter and Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel and Disclosure Counsel, are contingent upon the issuance of the Bonds.

## PENDING LEGISLATION

The District is not aware of any significant pending legislation which would have a material adverse effect on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

## MISCELLANEOUS

All of the preceding summaries of the Indenture, the Bonds, other applicable agreements and legislation, and other documents are made subject to the provisions of such legislation and documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith. This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information that is contained in this Official Statement has been compiled from official and other sources that are deemed to be reliable, and is believed to be correct as of its date, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter.

The execution and delivery of this Official Statement by the District has been duly authorized by the Board of Directors.

COMMUNITY FACILITIES DISTRICT NO. 99-1  
(TALEGA) OF THE SANTA MARGARITA WATER  
DISTRICT

---

/s/Daniel R. Ferons  
General Manager  
Santa Margarita Water District

[THIS PAGE INTENTIONALLY LEFT BLANK]



## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District ("CFD No. 99-1") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Golf Course Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property" and "Undeveloped Property" as described below. All of the real property in CFD No. 99-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

**"Acre or Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

**"Administrative Expenses"** means the following actual or reasonably estimated costs directly related to the administration of CFD No. 99-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the Water District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the Water District, CFD No. 99-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the Water District, CFD No. 99-1 or any designee thereof of complying with Water District, CFD No. 99-1 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the Water District, CFD No. 99-1 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the Water District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the Water District or CFD No. 99-1 for any other administrative purposes of CFD No. 99-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

**"Assessor's Parcel"** means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's Parcel number.

**"Assessor's Parcel Map"** means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

**"Assigned Special Tax"** means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C below.

**"Backup Special Tax"** means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C below.

**“Board”** means the Board of Directors of the Santa Margarita Water District, acting as the legislative body of CFD No. 99-1.

**“Bonds”** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 99-1 under the Act.

**“CFD Administrator”** means an official of the Water District, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

**“CFD No. 99-1”** means Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District.

**“County”** means the County of Orange.

**“Developed Property”** means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.

**“Fiscal Year”** means the period starting July 1 and ending on the following June 30.

**“Golf Course Property”** means the area consisting of up to 206.6 acres of the golf course property described and geographically identified in Attachment A to this Rate and Method of Apportionment and in Exhibit A of the Talega Area Plan dated September 8, 1998 for planning areas B, C, G, H, and I, and portions of planning areas D and E, as amended from time-to-time or modified pursuant to a precise site plan for such golf course property.

**“Indenture”** means the indenture, trust agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**“Land Use Class”** means any of the classes listed in Table 1.

**“Maximum Special Tax”** means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor’s Parcel.

**“Non-Residential Property”** means all Assessor’s Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

**“Outstanding Bonds”** means all Bonds which are deemed to be outstanding under the Indenture.

**“Property Owner Association Property”** mean any property within the boundaries of CFD No. 99-1 that is owned by or dedicated to a property owner association, including any master or sub-association.

**“Proportionately”** means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property within CFD No. 99-1. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property in CFD No. 99-1.

**“Public Property”** means any property within the boundaries of CFD No. 99-1 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

**“Religious Property”** means all property within the boundaries of CFD No. 99-1 which is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor’s Parcels used for religious schools, day care centers, or congregate care facilities.

**“Residential Property”** means all Assessor’s Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

**“Residential Floor Area”** means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor’s Parcel.

**“Special Tax”** means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Developed Property, Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property to fund the Special Tax Requirement.

**“Special Tax Requirement”** means that amount required in any Fiscal Year for CFD No. 99-1 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of CFD No. 99-1 facilities eligible under the Act; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy, as determined pursuant to the Indenture.

**“State”** means the State of California.

**“Taxable Golf Course Property”** means all of the Assessor’s Parcels of Golf Course Property that are not exempt pursuant to Section E below.

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of CFD No. 99-1 which are not exempt from the Special Tax pursuant to law or Section E below.

**“Taxable Property Owner Association Property”** means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

**“Taxable Public Property”** means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section E below.

**“Taxable Religious Property”** means all Assessor’s Parcels of Religious Property that are not exempt pursuant to Section E below.

**“Trustee”** means the trustee or Trustee under the Indenture.

“**Undeveloped Property**” means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

“**Water District**” means the Santa Margarita Water District.

**B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all Taxable Property within CFD No. 99-1 shall be classified as Developed Property, Taxable Golf Course Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Class 1 and Non-Residential Property shall be assigned to Land Use Class 2.

The Assigned Special Tax for Residential Property shall be based on the Residential Floor Area located on the Assessor’s Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Acreage of the Assessor’s Parcel.

**C. MAXIMUM SPECIAL TAX RATE**

**1. Developed Property**

a. Maximum Special Tax

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for Fiscal Year 1999-2000 for each Land Use Class is shown below in Table 1. The Assigned Special Tax for each Assessor’s Parcel of Residential Property shall equal the amount per square foot times the square footage of Residential Floor Area on such Assessor’s Parcel.

**TABLE 1**

**Assigned Special Taxes for Developed Property  
For Fiscal Year 1999-2000 Community Facilities District No. 99-1**

<b>Land Use Class</b>	<b>Description</b>	<b>Assigned Special Tax</b>
1	Residential Property	\$0.6418 per square foot of Residential Floor Area
2	Non-Residential Property	\$6,000 per Acre

c. Backup Special Tax

The Fiscal Year 1999-2000 Backup Special Tax for an Assessor’s Parcel of Developed Property shall equal \$0.2295 per square foot of the Assessor’s Parcel.

d. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2000, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. **Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property**

a. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property in CFD No. 99 1 shall be \$9,995 per Acre.

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2000, the Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. **METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been

issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

**E. EXEMPTIONS**

No Special Tax shall be levied on up to 1,230.74 Acres of Property Owner Association Property, Public Property and/or Religious Property and up to 206.6 Acres of Golf Course Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Golf Course Property, Property Owner Association Property, Public Property, or Religious Property. However, should an Assessor's Parcel no longer be classified as Golf Course Property, Property Owner Association Property, Public Property or Religious Property its tax-exempt status will be revoked.

Golf Course Property, Property Owner Association Property, Public Property or Religious Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

**F. REVIEW/APPEAL COMMITTEE**

The Board shall establish as part of the proceedings and administration of CFD No. 99-1 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

**G. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 99-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

**H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

**"CFD Public Facilities"** means either \$89 million in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 99-1 under the authorized bonding program for CFD No. 99-1, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

**"Construction Fund"** means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

**“Construction Inflation Index”** means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

**“Future Facilities Costs”** means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

**“Outstanding Bonds”** means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

**“Previously Issued Bonds”** means all Bonds that have been issued by CFD No. 99-1 prior to the date of prepayment.

## **1. Prepayment in Full**

Any Assessor’s Parcel of Taxable Property, except for Assessor’s Parcels of Undeveloped Property for which a building permit has not been issued may be prepaid. The Special Tax obligation applicable to such Assessor’s Parcel in CFD No. 99-1 may be fully prepaid and the obligation of the Assessor’s Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor’s Parcel at the time of prepayment. An owner of an Assessor’s Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor’s Parcel. The CFD Administrator may charge a reasonable fee for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
less	<u>Capitalized Interest Credit</u>
Total:	equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

### **Paragraph No.:**

1. For Assessor’s Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor’s Parcel to be prepaid. For Assessor’s Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor’s Parcel as though it was

already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel. For all other Taxable Property, compute the Maximum Special Tax for that Assessor's Parcel.

2. (a) Divide the Assigned Special Tax (for Assessor's Parcels of Developed Property or Undeveloped Property) or the Maximum Special Tax (for all other Taxable Property), as applicable, computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 99-1 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 99-1, excluding any Assessor's Parcels which have been prepaid, and  
  
(b) Divide the Backup Special Tax (for Assessor's Parcels of Developed Property or Undeveloped Property) or the Maximum Special Tax (for all other Taxable Property), as applicable, computed pursuant to paragraph 1 by the total estimated Backup Special Taxes at buildout for the entire CFD No. 99-1, excluding any Assessor's Parcels which have been prepaid.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
5. Compute the current Future Facilities Costs.
6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of No. 99-1, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").



13. The reserve fund credit (the "Reserve Fund Credit ") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 99-1.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 99-1 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

## **2. Prepayment in Part**

The Maximum Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

PP = the partial prepayment

P<sub>E</sub> = the Prepayment Amount calculated according to Section H.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially prepaying the Maximum Annual Special Tax.

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the Water District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1., and (ii) indicate in the records of CFD No. 99-1 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

#### **I. TERM OF SPECIAL TAX**

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2038-2039.

**Attachment A describing and identifying the Golf Course Property has been intentionally omitted.**

## APPENDIX B

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

*The following is a summary of certain provisions of the Bond Indenture, dated as of August 1, 1999, between the District and the Trustee, as amended by the First Amendment to Bond Indenture, dated as of October 19, 2001, and as supplemented by the First Supplemental Bond Indenture, dated as of April 1, 2003, the Second Supplemental Bond Indenture, dated as of May 1, 2007, the Third Supplemental Bond Indenture, dated as of August 1, 2011, the Fourth Supplemental Bond Indenture, dated as of August 1, 2014 and the Fifth Supplemental Bond Indenture, dated as of August 1, 2017 (collectively, the “Indenture”) which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture for a full and complete statement of its provisions. Capitalized terms that are not defined in the Official Statement have the meanings set forth in the Indenture.*

### DEFINITIONS

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq.*, of the California Government Code.

“Acquisition and Construction Fund” means the fund by such name created and established pursuant to the Indenture.

“Administrative Expenses” means the administrative costs incurred by the Water District on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, and any other costs otherwise incurred by the Water District on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“Administrative Expense Account” means the account by such name in the Special Tax Fund created and established pursuant to the Indenture.

“Alternative Penalty Account” means the account by such name created and established in the Rebate Fund pursuant to the Indenture.

“Annual Debt Service” means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

“Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (“Direct Obligations”);

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(a) U.S. Export-Import Bank (“Eximbank”) - direct obligations or fully guaranteed certificates of beneficial ownership,

- (b) Farmers Home Administration (“FmHA”) - certificates of beneficial ownership,
  - (c) Federal Financing Bank,
  - (d) Federal Housing Administration Debentures (“FHA”),
  - (e) General Services Administration - participation certificates,
  - (f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”) GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations,
  - (g) U.S. Maritime Administration - guaranteed Title XI financing, and
  - (h) U.S. Department of Housing and Urban Development (“HUD”) - project notes, local authority bonds, new communities debentures (U.S. government guaranteed debentures), and U.S. Public Housing Notes and Bonds (U.S. government guaranteed public housing notes and bonds);
- (3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
- (a) Federal Home Loan Bank System - senior debt obligations,
  - (b) Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”) -participation certificates and senior debt obligations,
  - (c) Federal National Mortgage Association (“FNMA” or “Fannie Mae”) -mortgage-backed securities and senior debt obligations,
  - (d) Resolution Funding Corp. (“REFCORP”) obligations, and
  - (e) Farm Credit System Corp. - Consolidated system-wide bonds and notes;
- (4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G,” “AAAm” or “AAm,” and, if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2” (including those of the Trustee and its affiliates or funds for which the Trustee or affiliates provide investment advisory or other management services);
- (5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee on behalf of the Bondholders must have a perfected first security interest in the collateral;
- (6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or which are with a bank rated “AA” or better by Standard & Poor’s and “Aa” or better by Moody’s (including those of the Trustee and its affiliates);
- (7) Investment Agreements with any corporation, including banking or financial institutions, provided that:
- (a) the long-term debt of the provider of any such investment agreement, or in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability, is rated, at the time of investment, in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and

(b) any such investment agreement will include a provisions that in the event that the long-term debt rating or claims paying ability rating of the provider or the guarantor is downgraded below “AA-” by Standard & Poor’s or “Aa3” by Moody’s during the term of the agreement the provider must either (A) deliver to the Trustee or a third party custodian collateral in the form of Unites States Treasury or agency obligations which at least equal 102% of the principal amount invested thereunder or (B) assign the existing agreement and all of its obligations thereunder to a financial institution mutually acceptable to the provider, the District and the Trustee which is rated in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and

(c) any such investment agreement will include a provision that in the event that the long-term debt rating or claims paying ability rating of the provider, or the guarantor, is downgraded below “A-” by Standard & Poor’s or “A3” by Moody’s during the term of the agreement the provider must repay the principal of and accrued by it unpaid interest on the invested moneys, and

(d) any such agreement will include a provision to the effect that in the event of default under such Investment Agreement by such provider or in the event of a bankruptcy of such provider, the District has the right to withdraw or cause the Trustee to withdraw all funds invested in such agreement and thereafter to invest such funds pursuant to the Indenture, and

(e) any such investment agreement permits withdrawal upon not more than three (3) days’ notice (excepting only withdrawals from the Acquisition and Construction Fund, from which withdrawals may be permitted upon not more than seven (7) days’ notice) for any purpose authorized for the use of the invested funds under the Indenture;

(8) Commercial paper rated, at the time of purchase, “Prime - 1” by Moody’s and “A-1” or better by Standard & Poor’s;

(9) Bonds or notes issued by any state or municipality which are rated by both Rating Agencies in one of the two highest rating categories assigned by such agencies;

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody’s and “A-1” or “A” or better by Standard & Poor’s;

(11) Repurchase agreements collateralized by Direct Obligations, GNMA’s, FNMA’s or FHLMCs with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated “P-1” or “A3” or better by Moody’s, and “A-1” or “A-” by Standard & Poor’s; provided:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction, and

(b) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent (“Agent”) for the Trustee, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, or (iii) a bank approved in writing for such purpose by the District, and the Trustee has received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, and

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Trustee, and

(d) the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, and

(e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%; and

(12) Any other investment which the District is permitted by law to make.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Trustee will be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

“Authorized Representative of the District” means the General Manager, the Finance Manager and any other person or persons designated by the Board of Directors of the Water District and authorized to act on behalf of the District by a written certificate signed on behalf of the Water District by the President of the Board of Directors and containing the specimen signature of each such person.

“BAM” means Build America Mutual Assurance Company, or any successor thereto.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bondowner” or “Owner” means the person or persons in whose name or names any Bond or Parity Bond is registered.

“Bond Register” means the books which the Trustee will keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds will be recorded.

“Bond Year” means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds will begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

“Bonds” means the District’s \$67,070,000 Series 1999 Special Tax Bonds issued pursuant to the Indenture, the 2017 Bonds and any Parity Bonds.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the City where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

“Certificate of the Finance Manager” means a written certificate or warrant request executed by the Finance Manager, or his or her written designee, on behalf of the District.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds or any Parity Bonds, fees of financial consultants, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Finance Manager.

“Delivery Date” means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

“Developed Property” means, as of any date of determination, real property within the District for which a building permit has been issued for the construction of a residence or a commercial or industrial building.

“Direct Debt for Developed Property” means the largest principal amount of Bonds and Parity Bonds that results in both: (1) the maximum Special Taxes that may be levied on Developed Property (assuming taxation of such property as if it were “Developed Property,” as defined in the RMA, and not including any parcels of Developed Property with delinquent Special Taxes) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Bonds and Parity Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year plus the share of Administrative Expenses allocable to the Developed Property for such Fiscal Year; and (2) a Value of Developed Property equal to at least  $3\frac{1}{2}$  times the sum of Direct Debt for Developed Property plus Overlapping Debt allocable to Developed Property. For purposes of this definition, Administrative Expenses in each Fiscal Year will be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Direct Debt for Developed Property; and the portion of the total Administrative Expenses allocable to Developed Property will be the same portion that Special Taxes on Developed Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

“Direct Debt for District Property” means the largest principal amount of Bonds and Parity Bonds that results in a Value of District Property equal to at least three times the sum of Direct Debt for District Property plus Overlapping Debt allocable to all property in the District that is subject to the levy of the Special Taxes.

“Direct Debt for Near Term Property” means the largest principal amount of Bonds and Parity Bonds that results in: (1) the maximum Special Taxes that may be levied on Near Term Property (assuming taxation of such property as if it were “Developed Property,” as defined in the RMA, and not including any parcels of Near Term Property with delinquent Special Taxes) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Bonds and Parity Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year plus the share of Administrative Expenses allocable to the Near Term Property for such Fiscal Year; and (2) a Value of Near Term Property equal to at least 3 times the sum of Direct Debt for Near Term Property plus Overlapping Debt allocable to Near Term Property. For purposes of this definition, Administrative Expenses in each Fiscal Year will be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Direct Debt for Near Term Property and the portion of the total Administrative Expenses allocable to Near Term Property will be the same portion that Special Taxes on Near Term Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

“Direct Debt for Undeveloped Property” means the largest principal amount of Bonds and Parity Bonds that results in: (1) the maximum Special Taxes that may be levied on Undeveloped Property (assuming taxation of such property as if it were “Undeveloped Property,” as defined in the RMA, and not including any parcels of Undeveloped Property with delinquent Special Taxes) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Bonds and Parity Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year plus the share of Administrative Expenses allocable to the Undeveloped Property for such Fiscal Year; and (2) a Value of Undeveloped Property equal to at least  $2\frac{1}{2}$  times the sum of Direct Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property. For purposes of this definition, Administrative Expenses in each Fiscal Year will be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Direct Debt for Undeveloped Property and the portion of the total Administrative Expenses allocable to Undeveloped Property will be the same portion that Special Taxes on Undeveloped Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

“District” means Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District established pursuant to the Act and the Resolution of Formation.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“DTC Participants” means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

“Federal Securities” means any of the following:

- (a) Cash.
- (b) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series – “SLGS”).
- (c) Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself, *e.g.*, CATS, TIGRS and similar securities.
- (d) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York and are in book-entry form.
- (e) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s.
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
  - (i) U.S. Export-Import Bank- direct obligations or fully guaranteed certificates of beneficial ownership.
  - (ii) Fannery Home Administration - certificates of beneficial ownership,
  - (iii) Federal Financing Bank,
  - (iv) General Services Administration - participation certificates,
  - (v) U.S. Maritime Administration - guaranteed Title XI financing, and
  - (vi) U.S. Department of Housing and Urban Development (HUD)- project notes, local authority bonds, new communities debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds.

“Fifth Supplement” means the Fifth Supplemental Bond Indenture, dated as of August 1, 2017, between the District and the Trustee.

“Finance Manager” means the Finance Manager of the Water District.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“General Manager” means the General Manager of the Water District.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

“Indenture” means this Bond Indenture, together with any Supplemental Indenture entered into pursuant to the Indenture.

“Insured Bonds” means the 2017 Bonds maturing on September 1, 2029 and September 1, 2030, inclusive.

“Interest Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.



“Interest Payment Date” means each March 1 and September 1, provided, however, that if any such day is not a Business Day, interest up to, but not including the Interest Payment Date will be paid on the Business Day next following such date.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in clause (g) of the definition of Authorized Investments in the Indenture.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom: (1) is in fact independent and not under the domination of the District or the Water District; (2) does not have any substantial interest, direct or indirect, in the District or the Water District; and (3) is not connected with the District or the Water District as a member, officer or employee of the District or the Water District, but who may be regularly retained to make annual or other reports to the District or the Water District.

“Late Payment Rate” means the lesser of: (a) the greater of: (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (the “Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, N.A.) plus 3%; and (ii) the then-applicable highest rate of interest on the Insured Bonds; and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event that JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as BAM, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to BAM shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

“Maximum Annual Debt Service” means the maximum amount of the Annual Debt Service for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Near Term Property” means real property within the District: (i) with respect to which a subdivision map or a parcel map creating conveyable parcels has been recorded with the County Recorder of the County of Orange; (ii) for which grubbing and clearing are complete, as determined in a written instrument by an Authorized Representative of the District; (iii) for which both: (A) rough cut and fill are at least 90% complete; and (B) grading on a materials moved basis is at least 90% complete, each as determined in a written instrument by an Authorized Representative of the District; (iv) with respect to which a paved public access road with utilities, other than water and sewer, has been completed to within 100 yards of the site, as determined in a written instrument by an Authorized Representative of the District; (v) with respect to water and sewer utilities, a will-serve letter has been executed by the Water District covering all of the Near Term Property; and (vi) with respect to which no building permit for a residential unit or a non-residential building has been issued.

“Net Taxes” means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses and minus the portion of any Prepayment that not required to be deposited in the Special Tax Fund pursuant to the Indenture.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except: (1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture; (2) Bonds and Parity Bonds for payment or redemption of which monies have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and (3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange or for which a replacement has been issued pursuant to the Indenture.

“Overlapping Debt” means with respect to any property within the District, the sum of: (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds; plus (b) a portion of the principal amount of any outstanding bonds of Community Facilities District No. 90-2 (Talega) of the Capistrano Unified School District determined in accordance with the same methodology for calculating Direct Debt for Developed, Near Term and Undeveloped Property pursuant to the Indenture; plus (c) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the “Other CFD Bonds”) determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Policy” means the Municipal Bond Insurance Policy issued by BAM that guarantees the scheduled payment of principal of and interest on the Insured Bonds when due.

“Prepayment” means money received by the Water District or the District as a complete or partial prepayment of Special Taxes permitted pursuant to the RMA.

“Prepayment Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Principal Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Principal Office of the Trustee” means the office of the Trustee located in Los Angeles, California or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

“Rating Agency” means either Moody’s or Standard & Poor’s, or both, as the context requires.

“Rebate Account” means the Account by such name created and established in the Rebate Fund pursuant to the Indenture.

“Rebate Fund” means the fund by such name created and established pursuant to the Indenture.

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Representation Letter” means the representation letter or letters from the District to DTC.

“Reserve Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy issued by BAM for the benefit of the 2017 Bonds and deposited in the 2017A Bond Reserve Account.

“Reserve Requirement” means, as of any date of calculation by the District, an amount equal to the lowest of: (i) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any; or (ii) Maximum Annual Debt Service; or (iii) 125% of the average Annual Debt Service.

“Resolution of Formation” means Resolution No. 99-02-02, adopted by the Board of Directors of the Water District on February 24, 1999, pursuant to which the Water District formed the District.

“RMA” means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at an election conducted on February 24, 1999, as amended and approved by the qualified electors of the District at an election conducted on July 28, 1999.

“Security Documents” means the Indenture, the 2017 Bonds and/or any additional or supplemental document executed in connection with the Insured Bonds.

“Sinking Fund Payment” means the annual payment in those years indicated in the Indenture to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Indenture to retire the Term Bonds or in a Supplemental Indenture to retire any Parity Bonds which are designated as Term Bonds.

“Six-Month Period” means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

“Special Tax Administrator” means David Taussig & Associates in its capacity as the consultant engaged by the Water District to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the RMA, as the RMA may be amended from time to time (if and to the extent such amendment is consistent with the covenant set forth in the Indenture).

“Special Tax Fund” means the fund by such name created and established pursuant to the Indenture.

“Supplemental Indenture” means any supplemental indenture entered into in accordance with the provisions of the Indenture amending or supplementing the Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of McGraw-Hill, its successors and assigns.

“Surplus Fund” means the fund by such name created and established pursuant to the Indenture.

“Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with respect to the Code.

“Term Bonds” means any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Trustee” means BNY Western Trust Company, a banking corporation organized and existing under the laws of the State of California, at its principal corporate trust office in Los Angeles, California and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

“2014 Bond Reserve Account” means the account by such name within the Special Tax Fund created and established pursuant to the Indenture.

“2017 Bonds” means the District’s \$37,250,000 Series 2017A Special Tax Refunding Bonds issued pursuant to the Indenture, as amended and supplemented by the Fifth Supplement.

“2017A Bond Reserve Account” means the account by such name within the Special Tax Fund created and established pursuant to the Fifth Supplement.

“Undeveloped Property” means taxable real property within the District which is not Developed Property or Near Term Property.

“Value of Developed Property” means: (i) the fair market value, as of the date of value used in the appraisal provided for below, of the parcels of Developed Property which are subject to the levy of the Special Taxes and which are not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than 90 days preceding the date of such determination and that is based upon a methodology of valuation consistent with the Appraisal, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Orange.

“Value of District Property” means: (i) the fair market value, as of the date of value used in the appraisal provided for below, of the parcels of property in the District which are subject to the levy of the Special Taxes and which are not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than 90 days preceding the date of such determination and that is based upon a methodology of valuation and (with respect to Undeveloped Property and Near Term Property) market absorption consistent with the Appraisal and that includes such value as the appraiser deems appropriate for the portions of the Project for which proceeds of Bonds or Parity Bonds will be made available, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Orange.

“Value of Near Term Property” means: (i) the fair market value, as of the date of value utilized in the appraisal provided for below, of the parcels of Near Term Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than 90 days preceding the date of such determination and that is based upon a methodology of valuation and market absorption consistent with the Appraisal and that includes such value as the appraiser deems appropriate for the portions of the Project for which proceeds of Bonds or Parity Bonds will be made available; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Orange.

“Value of Undeveloped Property” means: (i) the fair market value as of the date of value utilized in the appraisal provided for below, of the parcels of Undeveloped Property which are subject to the levy of the Special

Taxes and not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than ninety (90) days preceding the date of such determination and that is based upon a methodology of valuation and market absorption consistent with the Appraisal and that includes such value as the appraiser deems appropriate for the portions of the Project for which proceeds of Bonds or Parity Bonds will be made available, or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Orange.

“Water District” means the Santa Margarita Water District.

## **GENERAL AUTHORIZATION AND BOND TERMS**

### **Type and Nature of Bonds and Parity Bonds**

Neither the faith and credit nor the taxing power of the Water District, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the Water District nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Indenture. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the Water District or the forfeiture of any of their property. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District’s property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Indenture and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Directors of the Water District nor any persons executing the Bonds or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the Indenture, the District will not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or any Parity Bonds, or for the performance of any covenants contained in the Indenture. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

### **Equality of Bonds and Parity Bonds and Hedge of Net Taxes**

Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds will be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any Parity Bonds and any premiums upon the redemption thereof, will be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds and any Parity Bonds. The Net Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge will constitute a first lien on such assets. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) will constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding will not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Special Taxes deposited in the Administrative Expense Account of the Special Tax Fund, the Rebate Fund and the Surplus Fund will no longer be considered to be pledged to the Bonds or any Parity Bonds,

and none of the Rebate Fund, the Surplus Fund, the Administrative Expense Account of the Special Tax Fund nor the Acquisition and Construction Fund will be construed as a trust fund held for the benefit of the Owners.

Nothing in the Indenture or any Supplemental Indenture will preclude: (a) subject to the limitations contained in the Indenture, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California; or (b) the issuance, subject to the limitations contained in the Indenture, of Parity Bonds which will be payable from Net Taxes.

### **Bond Register**

The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which will upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in the Indenture, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register Bonds and any Parity Bonds as provided in the Indenture.

### **Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds**

If any Bond or Parity Bond becomes mutilated, the District will execute, and the Trustee will authenticate and deliver a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee will be cancelled by the Trustee pursuant to the Indenture. If any Bond or Parity Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the District and the Trustee is given the District will execute and the Trustee will authenticate and deliver a new Bond or Parity Bond, as applicable of like tenor, maturity and issue, numbered and dated as the Trustee determines in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Indenture with all other Bonds and Parity Bonds issued under the Indenture. The Trustee will not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding under the Indenture, but both the original and replacement Bond or Parity Bond will be treated as one and the same. Notwithstanding any other provision of the Indenture in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured the Trustee may make payment with respect to such Bonds or Parity Bonds.

### **Validity of Bonds and Parity Bonds**

The validity of the authorization and issuance of the Bonds and any Parity Bonds will not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part of any contracts made by the District in connection therewith, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State will be conclusive evidence of their validity and of the regularity of their issuance.

### **Book-Entry System**

(a) All Bonds will be initially issued in the form of a separate single certificated fully registered Bond for each maturity date of the Bonds. Upon initial issuance, the ownership of each Bond will be registered in the Bond Register in the name of Cede & Co., as nominee of DTC. Except as provided in the Indenture, all Outstanding Bonds will be registered in the Bond Register in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the Bond Register in the name of Cede & Co., as nominee of DTC, the District and the Trustee will have no responsibility or obligation with respect to (i) the accuracy of the

records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown in the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The District and the Trustee may treat and consider the person in whose name each Bond is registered in the Bond Register as the holder and absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Bond Register, as provided in the Indenture, or their respective attorneys duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums to be paid. No person other than an Owner, as shown in the Bond Register, will receive a certificated Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to the Indenture. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the word "Cede & Co." in the Indenture will refer to such new nominee of DTC.

(c) The delivery of the Representation Letter by the District and the Trustee will not in any way limit the provisions of the Indenture or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the Bond Register. The Trustee will take all actions necessary for all representations in the Representation Letter with respect to the Trustee to be complied with at all times.

(d) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the District and the Trustee and discharging its responsibilities with respect thereto under applicable law.

The District, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the District determines that either DTC is unable to discharge its responsibilities with respect to the Bonds or a continuation of the requirement that all Outstanding Bonds be registered in the Bond Register in the name of Cede & Co., or any other nominee of DTC, is not in the best interest of the beneficial owners of such Bonds.

Upon the discontinuation or termination of the services of DTC with respect to the Bonds pursuant to the Indenture after which no substitute securities depository willing to undertake the functions of DTC under the Indenture can be found which, in the opinion of the District, is willing and able to undertake such functions upon reasonable and customary terms, the District is obligated to deliver Bond certificates, as described in the Indenture and the Bonds will no longer be restricted to being registered in the Bond Register in the name of Cede & Co. as nominee of DTC, but may be registered in whatever name or names DTC designates to the Trustee in writing, in accordance with the provisions of the Indenture.

(e) Notwithstanding any other provisions of the Indenture to the contrary, as long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal or, premium, if any, and interest on such Bond and all notices with respect to such Bond will be made and given, respectively, in the manner provided in the Representation Letter.

## **CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES**

### **Prepayment Account of the Special Tax Fund**

(a) The Trustee will deposit in the Prepayment Account the portion of each Prepayment directed to be so deposited in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the delivery of such Prepayment. On each date on which Bonds or Parity Bonds are to be redeemed from moneys on deposit in the Prepayment Account pursuant to paragraph (b) below, the Trustee will withdraw from the Capitalized Interest Subaccount of the Interest Account and from the Reserve Account and deposit in the Prepayment Account

the respective amounts, if any, directed to be so withdrawn and deposited in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the Prepayment giving rise to such redemption.

(b) Moneys set aside in the Prepayment Account will be used solely for the purpose of redeeming Bonds and Parity Bonds and will be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds; provided, however, that in lieu or partially in lieu of such call arid redemption, moneys deposited in the Prepayment Account as set forth above may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Indenture. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account or the Capitalized Interest Subaccount for the payment of interest on such Bonds on the next following Interest Payment Date.

### **Rebate Fund**

(a) The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and will establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund will be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account will be established for each issue of Bonds and Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds and any issue of Parity Bonds will be governed by the Indenture and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on such Bonds or Parity Bonds will not be adversely affected if such requirements are not satisfied.

(i) Rebate Account. The following requirements will be satisfied with respect to each subaccount of the Rebate Account:

A. Annual Computation. Within 55 days of the end of the fourth and the fifth Bond Year for each issue of Bonds and Parity Bonds and each fifth Bond Year thereafter, the District will calculate or cause to be calculated the amount of rebatable arbitrage for each issue of Bonds and Parity Bonds to which the Rebate Fund provisions of the Indenture are applicable, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-I (b) of the Rebate Regulations (the “Rebatable Arbitrage”). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

B. Annual Transfer. Within 55 days of the end of each Bond Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate for each issue upon the written direction of an Authorized Representative of the District, an amount will be deposited to each subaccount of the Rebate Account by the Trustee from any funds so designated by the District if and to the extent required, so that the balance in the Rebate Account equals the amount of Rebatable Arbitrage so calculated by or on behalf of the District in accordance with paragraph (A) above with respect to each issue of Bonds and Parity Bonds to which the Rebate Fund provisions of the Indenture are applicable. In the event that immediately following any transfer required by the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit to the credit of the applicable subaccount of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative of the District, the Trustee will withdraw the excess from the appropriate subaccount of the Rebate Account and then credit the excess to the Special Tax Fund.



C. Payment to the Treasury. The Trustee will pay as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account,

1. Not later than 60 days after the end of (A) the fifth Bond Year for each issue of Bonds and Parity Bonds to which the Rebate Fund provisions of the Indenture are applicable, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year for each issue of Bonds and Parity Bonds, as applicable; and

2. Not later than 60 days after the payment or redemption of all of an issue of Bonds and Parity Bonds, as applicable, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made will be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, or will be made in such other manner as provided under the Code.

(ii) Alternative Penalty Account.

A. Six-Month Computation. If the 1½% Penalty has been elected for an issue of Bonds or Parity Bonds, within 85 days of each particular Six-Month Period, the District will determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. The District will obtain expert advice in making such determinations.

B. Six-Month Transfer. Within 85 days of the close of each Six-Month Period the Trustee, at the written direction of an Authorized Representative of the District, will deposit an amount in the appropriate subaccounts of the Alternative Penalty Account from any source of funds held by the Trustee pursuant to the Indenture and designated by the District in such written directions or provided to it by the District, if and to the extent required, so that the balance in each subaccount of the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in the Indenture. In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by paragraph (C) below, the Trustee, at the written direction of an Authorized Representative of the District, will withdraw the excess from the applicable subaccount of the Alternative Penalty Account and credit the excess to the Special Tax Fund.

C. Payment to the Treasury. The Trustee will pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury out of amounts in a subaccount of the Alternative Penalty Account, specified by the District in writing not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed with respect to any issue of Bonds and Parity Bonds in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from a subaccount of the Alternative Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District will calculate the amount of such deficiency and direct the Trustee, in writing to deposit an amount equal to such deficiency into such subaccount of the Alternative Penalty Account from any funds held by the Trustee pursuant to the Indenture and designated by the District in such written directions prior to the time such payment is due. Each payment required to be made will be made to the Internal Revenue Service, Philadelphia, Pennsylvania 19155 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to an issue of Bonds or Parity Bonds after redemption and payment of such issue and after making the payments described in the Indenture, may be withdrawn by the Trustee at the written direction of the District and utilized in any lawful manner pursuant to the Act.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Rebate Fund provisions of the Indenture will survive the defeasance and final payment of any Bonds or Parity Bonds with respect to which an Account has been created in the Rebate Fund.

(d) Amendment Without Consent of Owners. The Indenture may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any issue of Bonds and Parity Bonds issued on a tax-exempt basis.

(e) Trustee Responsibility. The Trustee will be deemed conclusively to have complied with its obligations with respect to the Rebate Fund and any amounts required to be rebated to the United States Treasury under the Indenture by following the directions given by the District pursuant to the Rebate Fund provisions of the Indenture and no other obligations of the Trustee will be implied under the Indenture.

### **Surplus Fund**

After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee will transfer all remaining amounts in the Special Tax Fund, if any, to the Surplus Fund, other than amounts in the Special Tax Fund which the District has deemed available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund may be transferred by the Trustee, (i) to the Interest Account or the Principal Account to pay the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account are insufficient to pay Administrative Expenses. In the event unexpended amounts remain on deposit in the Surplus Fund after the foregoing transfers, if any, the District will apply such unexpended amounts to, in its sole discretion, either: (i) to reduce the next fiscal year's Special Tax levy by depositing such amount in the Special Tax Fund; or (iii) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose in the manner described in the Indenture. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, upon the written direction of the District, the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund will be invested in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

### **Investments**

Moneys held in any of the funds, accounts and subaccounts under the Indenture will be invested at the written direction of an Authorized Representative of the District, in accordance with the limitations set forth in the Indenture only in Authorized Investments which will be deemed at all times to be a part of such funds, accounts and subaccounts. Any loss resulting from such Authorized Investments will be credited or charged to the fund, account

or subaccount from which such investment was made, and any investment earnings on a fund, account or subaccount will be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund and each account therein will be deposited in the Special Tax Fund; and (ii) investment earnings on all amounts deposited in the Surplus Fund, and the Rebate Fund and each account therein will be deposited in those respective funds and accounts. Moneys in the funds, accounts and subaccounts held under the Indenture may be invested by the Trustee on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account and the Redemption Account will be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due. Notwithstanding anything in the Indenture to the contrary, amounts in the Capitalized Interest Subaccount on the Delivery Date for the Bonds and any Parity Bonds will not be invested at yields greater than those set forth in the Tax Certificate.

(b) Moneys in the Acquisition and Construction Fund will be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds and any Parity Bonds will not be invested at yields greater than those set forth in the Tax Certificate.

(c) One-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not later than two years from their date of purchase, and one-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than five years from the date of purchase; provided that such amounts may be invested in an Investment Agreement to the final maturity of Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds will mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such account relates. Notwithstanding anything in the Indenture to the contrary, amounts in the Reserve Fund on the Delivery Date for the Bonds and any Parity Bonds will not be invested at yields greater than those set forth in the Tax Certificate.

(d) Moneys in the Rebate Fund will be invested only in Authorized Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Indenture or in Authorized Investments of the type described in clause (d) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee will invest solely in Authorized Investments specified in clause (d) of the definition thereof.

The Trustee will sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such funds and accounts or from such funds and accounts. For the purpose of determining at any given time the balance in any such funds and accounts, any such investments constituting a part of such funds and accounts will be valued at their cost, except that amounts in the Reserve Account will be valued at the market value thereof and marked to market at least annually. In making any valuations of investments under the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee will not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture. The Trustee may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments. Any Authorized Investments that are registrable securities will be registered in the name of the Trustee.

For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture (other than the Rebate Fund) but will account for each separately.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

## **REDEMPTION OF BONDS AND PARITY BONDS**

### **Partial Redemption of Bonds or Parity Bonds**

Upon surrender of any Bond or Parity Bond to be redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds or a new Parity Bond or Parity Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity or, in the case of surrender of a Parity Bond, a new Parity Bond or Parity Bonds subject to the limitations contained in the Indenture.

### **Selection of Bonds and Parity Bonds for Redemption**

If less than all of the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption by lot, the Trustee will treat such Bonds as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000. Selection of Parity Bonds for redemption will be as set forth in the Supplemental Indenture for such Parity Bonds. The Trustee will promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

### **Effect of Notice and Availability of Redemption Money**

Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) The Bonds and Parity Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture or in any Supplemental Indenture with respect to any Parity Bonds, anything in the Indenture or in the Bonds or the Parity Bonds to the contrary notwithstanding;

(b) Upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds and Parity Bonds will be paid to the Owners thereof;

(c) As of the redemption date the Bonds or the Parity Bonds, or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds or Parity Bonds, or portions thereof, will cease to bear further interest; and

(d) As of the date fixed for redemption no Owner of any of the Bonds, Parity Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Indenture or any Supplemental Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## **COVENANTS AND WARRANTY**

### **Warranty**

The District will preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

## **Covenants**

So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund.

Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Trustee, and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes will be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District has further covenanted that, in connection with the delivery of any Prepayment to the Trustee, the District will also deliver to the Trustee a certificate of the Special Tax Administrator identifying with respect to the Prepayment: (i) the "Future Facilities Amount" (as defined in the RMA), with instructions that said amount will be deposited in the Project Account of the Acquisition and Construction Fund, (ii) the "Administrative Fees and Expenses" (as defined in the RMA), with instructions that said amount will be deposited in the Administrative Expense Account, (iii) the amount that represents the Special Taxes levied in the current Fiscal Year on the subject Assessor's Parcel which had not been paid, with instructions to deposit portions of said amount in the Interest Account and the Principal Account of the Special Tax Fund, (iv) the amount of the "Reserve Fund Credit" (as defined in the RMA), with instructions to withdraw said amount from the Reserve Account and transfer it to the Prepayment Account in connection with the redemption of Bonds, (v) the amount of the "Capitalized Interest Credit" (as defined in the RMA) with instructions to withdraw said amount from the Capitalized Interest Subaccount of the Interest Account and deposit it in the Prepayment Account in connection with the redemption of Bonds, and (vi) the amount to be deposited in the Prepayment Account.

The District has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the funds and accounts created under the Indenture will be made all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture will prevent the District from issuing, or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

The District has covenanted that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided that nothing contained will require the District to make any such payments so long as the District in good faith contests the validity of any such claims.

Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries will be made of all transactions relating to the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts will at all times during business hours be subject to the inspection of the Owners of not less than 10% of the principal

amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Parity Bonds issued on a tax-exempt basis for federal income tax purposes and the Bonds will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take an action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds; and

(f) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture, including payment of amounts required to pay the District’s pro rata share of any rebate amounts owing to the United States on the Bonds.

(g) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(h) Opinions. Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificates for the Bonds, and other relevant documents may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of Bond Counsel. In the event of any such change in the Indenture, the Tax Certificates for the Bonds, or other relevant documents, or any other actions taken or omitted by the District upon the advice or with approving opinion of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation, the District will, upon the making of any such change, or the taking or omission of any such other action, cause to be delivered an opinion of Bond Counsel to the effect that the interest on Bonds is excluded from gross income for federal income tax purposes.

The foregoing covenants are not applicable to, and nothing contained in the Indenture will be deemed to prevent the District from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a parity with the Bonds, the interest with respect to which has been determined by an opinion of Bond Counsel to be subject to federal income taxation.

**Reduction of Maximum Special Taxes.** The District has found and determined that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. The District further finds and determines that the issuance of Parity Bonds may be required in order to provide funds for the acquisition and construction of public improvements necessary for the future development of the land within the District, which future development will further secure the timely payment of principal of and interest on the Bonds. For the foregoing reason, the District determines that a reduction in the Maximum Special Tax (as defined in the RMA) authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the District Bonds. The District determines it to be necessary in order to preserve the security for the District Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the Maximum Special Tax rates for the District, unless in connection therewith: (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and Annual Debt Service in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved; (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds; and (iii) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, in the determination of the District, certify that: (1) on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the proposed reduction; and (2) on the basis of the future development activity described in the certificate of the Developer described in clause (A), the maximum amount of the Special Tax which may be levied each Fiscal Year on all property within the District that is subject to the levy of the Special Taxes will equal at least 110% of the sum of the estimated Administrative Expenses and Annual Debt Service in each applicable Bond Year on all Bonds, Parity Bonds, and Anticipated Parity Bonds subsequent to the proposed reduction. For purposes of estimating Administrative Expenses for the foregoing calculations, the Independent Financial Consultant or Special Tax Administrator will compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year; and for purposes of estimating Annual Debt Service on Anticipated Parity Bonds, the Independent Financial Consultant may assume that the Anticipated Parity Bonds will mature in such amounts, and bear interest at such rates, as the Independent Financial Consultant deems reasonable in light of market conditions at the time the Independent Financial Consultant delivers its certificate.

**Covenant to Defend.** The District has covenanted that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the Maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

### **Continuing Disclosure and Reporting Requirements**

The District has covenanted to comply with the terms of the Continuing Disclosure Agreement executed by it on the Delivery Date with respect to compliance with Rule 15c2-12, provided that the failure of the District to comply with the terms of said Continuing Disclosure Agreement will not constitute an event of default under the Indenture; provided, however, that with respect to the 2017 Bonds, the Trustee will, at the written direction of any Participating Underwriter (as defined in the Continuing Disclosure Agreement relating to the 2017 Bonds) or the holders of at least 25% aggregate principal amount of Outstanding 2017 Bonds, but only to the extent indemnified for its fees and expenses, including those of its attorneys, or any holder or beneficial owner of the 2017 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

## **Annual State Reports**

The following requirements will apply to the 2017 Bonds:

(a) Annual Reporting. Not later than October 30 of each year, commencing October 30, 2017 and continuing until the October 30 following the final maturity of the 2017 Bonds, the District will supply to the California Debt and Investment Advisory Commission (“CDIAC”) the information that is required to be provided thereto pursuant to Section 53359.5(b) of the Act and Section 8855(k)(1) of the California Government Code. Such information will be made available to any Owner upon written request to the District accompanied by a fee determined by the District to pay the costs of the District in connection therewith. The District will in no event be liable to any Owner or any other person or entity in connection with any error in any such information. The annual reporting will be made using such form or forms as may be prescribed by CDIAC.

(b) Other Reporting. If at any time the Trustee fails to pay principal and interest due on any scheduled payment date for the 2017 Bonds, or if funds are withdrawn from the 2017A Bond Reserve Account to pay principal and interest on the 2017 Bonds, the Trustee will notify the Finance Director of such failure or withdrawal in writing. The Finance Director will notify CDIAC and the original purchaser of the 2017 Bonds of such failure or withdrawal within 10 days of such failure or withdrawal.

(c) Amendment. The reporting requirements of the Fifth Supplement will be amended from time to time, without action by the District or the Trustee, to reflect any amendments to Section 53359.5(b) or Section 53359.5(c) of the Act. Notwithstanding the foregoing, any such amendment will not, in itself, affect the District’s obligations under the Continuing Disclosure Agreement. The District will notify the Trustee in writing of any such amendments which affect the reporting obligations of the Trustee under the Fifth Supplement.

(d) No Liability. None of the District, the Water District and their officers, agents and employees, the Finance Director or the Trustee will be liable for any inadvertent error in reporting the information required by the Fifth Supplement.

The Finance Director will provide copies of any of such reports to any Owner of 2017 Bonds upon the written request of an Owner of 2017 Bonds and payment by the person requesting the information of the cost of the District to produce such information and pay any postage or other delivery cost to provide the same, as determined by the Finance Director. The term “Owner” for purposes of the Fifth Supplement will include any beneficial owner of the 2017 Bonds.

## **AMENDMENTS TO INDENTURE**

### **Supplemental Indentures or Orders Not Requiring Bondowner Consent**

The District and Trustee may from time to time, and at any time, without notice to or consent of any of the Bondowners, enter into Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;



(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and with will not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding; or

(e) to modify, alter or amend the RMA in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Indenture; or

(f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

### **Supplemental Indentures or Orders Requiring Bondowner Consent**

Exclusive of the Supplemental Indentures described above under the caption “—Supplemental Indentures or Orders Not Requiring Bondowner Consent,” the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture will permit, or be construed as permitting: (a) an extension of the maturity date of the principal, or the payment date of interest on any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District desires to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture requires the consent of the Bondowners, the District will so notify the Trustee and will deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee will, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed Supplemental Indenture and will state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice will not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee receives an instrument or instruments purporting to be executed by the Owners of a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments refers to the proposed Supplemental Indenture described in such notice, and specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, will thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District will be disregarded and will be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds will thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

## **Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds**

After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action will be made on such Bonds or Parity Bonds. If the District so determines, new Bonds or Parity Bonds so modified as, in the opinion of the District, are necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds will be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

## **TRUSTEE**

### **Duties, Immunities and Liabilities of the Trustee**

The Bank of New York Mellon Trust Company, N.A. will be the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District. The Trustee will, prior to an event of default and after curing all events of default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. Upon the occurrence and upon the continuance of an event of default, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a reasonable corporate trustee would exercise or use as trustee under a trust indenture. The District may, at any time, appoint a successor Trustee for the purpose of receiving all money which the District is required to deposit with the Trustee and to allocate, use and apply the same as provided in the Indenture.

The Trustee is authorized to and will mail or cause to be mailed by first class mail, postage prepaid, or wire transfer in accordance with the Indenture, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Indenture, and to provide for the authentication of Bonds and Parity Bonds, and will perform such other duties expressly assigned to or imposed on it as provided in the Indenture; provided, however, that no other duties of the Trustee will be implied or imposed upon the Trustee other than as expressly stated under the Indenture. The Trustee will keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Trustee is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee will cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Indenture.

The District will from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Indenture, and indemnify and save the Trustee and its officers, directors and employees harmless against costs, claims expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Indenture. The foregoing obligation of the District to indemnify the Trustee will survive the removal or resignation of the Trustee or the discharge of the Bonds.

### **Removal of Trustee**

The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a

successor or successors thereto; provided that any such successor, other than the Trustee, is a bank or trust company having (or in the case of a financial institution that is part of a bank holding company, such company will have) a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority. Any removal will become effective only upon acceptance of appointment by the successor Trustee. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

### **Resignation of Trustee**

The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice will be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee satisfying the criteria in the Indenture by an instrument in writing. In the event a successor trustee has not been designated within 30 Business Days, the Trustee will have the right to petition any federal court for an order appointing a replacement Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

### **Liability of Trustee**

The recitals of fact and all promises, covenants and agreements contained in the Indenture or the Bonds will be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility and will have no liability for the correctness of the same and makes no representations as to the validity or sufficiency of the Indenture, the Bonds or any Parity Bonds, and will incur no responsibility and will have no liability in respect thereof, other than in connection with its express duties or obligations specifically set forth in the Indenture, in the Bonds and any Parity Bonds, or in the certificate of authentication of the Trustee. The Trustee will be under no responsibility or duty and will have no liability with respect to the issuance of the Bonds or any Parity Bonds for value. The Trustee will not be liable in connection with the performance of its duties, except for its own negligence or willful misconduct.

The Trustee will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond certificate of an Independent Financial Consultant or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered in good faith and in accordance therewith.

The Trustee will not be bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action, such matter (unless other evidence in respect thereof is specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee will have no duty or obligation whatsoever to monitor or enforce the collection of Special Taxes or other funds to be deposited with it, or as to the correctness of any amounts received. The sole obligation of the Trustee with respect thereto will be limited to the proper accounting for such funds as it actually receives. No

provision in the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of its rights or powers.

In the event the Trustee advances funds in connection with its administration of the trust, the Trustee will be entitled to interest at the maximum interest rate permitted by law.

The Trustee will not be deemed to have knowledge of any non-monetary event of default unless and until it has actual knowledge thereof by receipt of written notice thereof at its corporate trust office.

The Trustee has agreed to accept and act upon instructions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee has received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of each designated persons, which such incumbency certificate will be amended and replaced whenever a person is added to or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District has agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to a project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

### **Merger or Consolidation**

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger conversion or consolidation to which it is a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, will be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

## **EVENTS OF DEFAULT; REMEDIES**

### **Events of Default**

Any one or more of the following events will constitute an "event of default":

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same becomes due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same becomes due and payable;

(c) Except as described in (a) or (b), default is made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default has continued for a period of 30 days after the District has been given notice in writing of such default by the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds; or

(d) A declaration of bankruptcy by the District.

The District agrees to give notice to the Trustee immediately upon the occurrence of an event of default under (a), (b) or (d) above and within 30 days of the District's knowledge of an event of default under (c) above.

### **Remedies of Owners**

Following the occurrence of an event of default, any Owner will have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in the Indenture, the Bonds or any Parity Bonds will affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and any Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other amounts pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds or any Parity Bonds and in the Indenture.

A waiver of any default or breach of duty or contract by any Owner will not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as is deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

The Trustee's counsel is not and will not be deemed counsel to the Bondholders. Any communication between the Trustee and its counsel will be deemed confidential and privileged.

In case the moneys held by the Trustee after an event of default are insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity Bonds, then all available amounts will be applied to the payment of such principal and interest without preference or priority of principal over interest, or

interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

## **DEFEASANCE AND PARITY BONDS**

### **Defeasance**

If the District pays or causes to be paid, or there otherwise is paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond will cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond will thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Indenture, the Trustee will execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee will pay over and deliver to the District's general fund all monies and securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond will be deemed to have been paid within the meaning expressed above if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same becomes due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, non-callable Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same becomes due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds have not been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond will cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owner of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District relating to compliance with the Code. In connection with a defeasance under clauses (b) or (c) above, there will be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased, as and when the same becomes due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report will expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above will provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement will be controlling.

Upon a defeasance, the Trustee, upon request of the District, will release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds and Parity Bonds, the Trustee will pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee will, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

## **MISCELLANEOUS**

### **Cancellation of Bonds and Parity Bonds**

All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption will be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose will be, cancelled forthwith and will not be reissued. The Trustee will destroy such Bonds and Parity Bonds, and, upon request of the District, furnish to the District a certificate of such destruction.

### **Execution of Documents and Proof of Ownership**

Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds will be sufficient for the purposes of the Indenture (except as otherwise provided in the Indenture), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee will also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same is registered in the Bond Register will be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, will be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee will be affected by any notice to the contrary.

Nothing contained in the Indenture will be construed as limiting the Trustee or the District to such proof it being intended that the Trustee or the District may accept any other evidence of the matters stated in the Indenture which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond will bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

### **Unclaimed Moneys**

Anything in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by

the Trustee at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, will be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the written request of the District or the Trustee will, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date will not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

### **Provisions Constitute Contract**

The provisions of the Indenture will constitute a contract between the District and the Bondowners and the provisions of the Indenture will be construed in accordance with the laws of the State of California. In case any suit, action or proceeding to enforce any right or exercise any remedy is brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken. After the issuance and delivery of the Bonds the Indenture will be irrevocable, but will be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

### **Future Contracts**

Nothing contained in the Indenture will be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Gross Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Gross Taxes and other amounts pledged under the Indenture.

### **Further Assurances**

The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in the Indenture.

### **Severability**

If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, will be deemed severable and will not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant to the Indenture will remain valid and the Bondowners will retain all valid rights and benefits accorded to them under the laws of the State of California.

### **Insured Bond Insurance Provisions**

Notwithstanding anything to the contrary set forth in the Indenture, the following provisions apply to the 2017 Bonds, so long as the Insured Bonds are Outstanding and the Policy is in full force and effect and BAM has not defaulted on its obligations thereunder:

(a) Notice and Other Information to be given to BAM. The District will provide BAM with all notices and other information that the District is obligated to provide: (i) under the Continuing Disclosure



Agreement executed by the District on the Delivery Date of the 2017 Bonds; and (ii) to the holders of the Insured Bonds or the Trustee under the Security Documents.

The notice address of BAM is: Build America Mutual Assurance Company, 200 Liberty Street, 27th Floor, New York, New York 10281, Attention: Surveillance, Re: Policy No. 2017B0438, Telephone: (212) 235-2500, Telecopier: (212) 235-1542, Email: [notices@buildamerica.com](mailto:notices@buildamerica.com). In each case in which notice or other communication refers to an event of default or a claim on the Policy, then a copy of such notice or other communication will also be sent to the attention of the General Counsel at the same address and at [claims@buildamerica.com](mailto:claims@buildamerica.com) or at Telecopier: (212) 235-5214 and will be marked to indicate “URGENT MATERIAL ENCLOSED.”

(b) Defeasance. The investments in the defeasance escrow relating to Insured Bonds will be limited to non-callable, direct obligations of the United States of America and securities that are fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, or as otherwise may be authorized under State law and approved by BAM.

At least three (3) Business Days prior to any defeasance with respect to the Insured Bonds, the District will deliver to BAM draft copies of an escrow agreement, an opinion of bond counsel regarding the validity and enforceability of the escrow agreement and the defeasance of the Insured Bonds, a verification report (a “Verification Report”) prepared by a nationally recognized independent financial analyst or firm of certified public accountants regarding the sufficiency of the escrow fund. Such opinion and Verification Report will be addressed to BAM and must be in form and substance satisfactory to BAM. In addition, the escrow agreement must provide that:

(1) Any substitution of securities following the execution and delivery of the escrow agreement will require the delivery of a Verification Report, an opinion of bond counsel that such substitution will not adversely affect the exclusion from gross income of the holders of the Insured Bonds of the interest on the Insured Bonds for federal income tax purposes and the prior written consent of BAM, which consent will not be unreasonably withheld.

(2) The District will not exercise any prior optional redemption of Insured Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless: (i) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds; and (ii) as a condition to any such redemption there will be provided to BAM a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such redemption.

(3) The District may not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of BAM.

(c) Trustee. BAM will receive written notice of any name change of the Trustee or prior written notice of the resignation or removal of the Trustee. Any Trustee must be: (1) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250 million of assets; (2) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1 billion of assets; or (C) otherwise approved by BAM in writing. No removal, resignation or termination of the Trustee will take effect until a successor, acceptable to BAM, is qualified and appointed.

(d) Amendments, Supplements and Consents. BAM’s prior written consent is required for all amendments and supplements to the Security Documents, with the exceptions noted below. The District will send copies of any such amendments or supplements to BAM and the rating agencies which have assigned a rating to the Insured Bonds.

(1) Consent of BAM. Any amendments or supplements to the Security Documents will require the prior written consent of BAM with the exception of amendments or supplements:

(i) To cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in the transaction documents or in any supplement thereto; or

(ii) To grant or confer upon the holders of the Insured Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders of the Insured Bonds; or

(iii) To add to the conditions, limitations and restrictions on the issuance of bonds or other obligations under the provisions of the Security Documents other conditions, limitations and restrictions thereafter to be observed; or

(iv) To add to the covenants and agreements of the District in the Security Documents other covenants and agreements thereafter to be observed by the District or to surrender any right or power therein reserved to or conferred upon the District; or

(v) To issue additional parity debt in accordance with the requirements set forth in the Security Documents.

(2) Consent of BAM in Addition to Bondholder Consent. Any amendment, supplement, modification to, or waiver of, any of the Security Documents that requires the consent of holders of the Insured Bonds or adversely affects the rights or interests of BAM is subject to the prior written consent of BAM.

(3) Insolvency. Any reorganization or liquidation plan with respect to the District must be acceptable to BAM. Each owner of the Insured Bonds have appointed BAM as their agent and attorney-in-fact with respect to the Insured Bonds and have agreed that BAM may at any time during the continuation of any proceeding by or against the District under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation: (i) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"); (ii) the direction of any appeal of any order relating to any Claim; (iii) the posting of any surety, supersedeas or performance bond pending any such appeal; and (iv) the right to vote to accept or reject any plan of adjustment. In addition, each owner of the Insured Bonds delegate and assign to BAM, to the fullest extent permitted by law, the rights of each owner of the Insured Bonds with respect to the Insured Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(4) Control by BAM Upon Default. Anything in the Security Documents to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, BAM is entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Bonds or the Trustee for the benefit of the holders of the Insured Bonds under any Security Document. No default or event of default may be waived without BAM's written consent.

(5) BAM as Owner. Upon the occurrence and continuance of a default or an event of default, BAM will be deemed to be the sole owner of the Insured Bonds for all purposes under the Security Documents, including, without limitations, for purposes of exercising remedies and approving amendments.

(6) Consent of BAM for Acceleration. BAM's prior written consent is required as a condition precedent to and in all instances of acceleration, if any.

(7) Grace Period for Payment Defaults. No grace period will be permitted for payment defaults on the Insured Bonds. No grace period for a covenant default with respect to the Insured Bonds will exceed 30 days without the prior written consent of BAM.

(8) Special Provisions for Insurer Default. If an Insurer Default occurs and is continuing, then, notwithstanding anything in paragraphs (d)(1)-(5) above to the contrary: (i) if at any time prior to or following

an Insurer Default, BAM has made a payment under the Policy, to the extent of such payment, BAM will be treated like any other holder of the Insured Bonds for all purposes, including giving of consents; and (ii) if BAM has not made any payment under the Policy, BAM will have no further consent rights until the particular Insurer Default is no longer continuing or BAM makes a payment under the Policy, in which event, the foregoing clause (1) will control.

For purposes of the foregoing paragraph, “Insurer Default” means: (A) BAM has failed to make any payment under the Policy when due and owing in accordance with its terms; or (B) BAM has: (I) voluntarily commenced any proceeding or filed any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law; (II) consented to the institution of or failed to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition; (III) applied for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property; (IV) filed an answer admitting the material allegations of a petition filed against it in any such proceeding; (V) made a general assignment for the benefit of creditors; or (VI) taken action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality orders the suspension of payments on the Policy or obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of BAM (including without limitation under the New York Insurance Law).

(e) BAM As Third Party Beneficiary. BAM is recognized as and will be deemed to be a third party beneficiary of the Security Documents and may enforce the provisions of the Security Documents as if it were a party thereto.

(f) Payment Procedure Under the Policy. In the event that principal and/or interest due on the Insured Bonds are paid by BAM pursuant to the Policy, the Insured Bonds will remain Outstanding for all purposes, will not be defeased or otherwise satisfied and will not be considered paid by the District, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the District to the registered owners will continue to exist and will run to the benefit of BAM, and BAM will be subrogated to the rights of such registered owners.

In the event that on the second business day prior to any payment date on the Insured Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Insured Bonds due on such payment date, the Trustee will immediately notify BAM or its designee on the same business day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee will so notify BAM or its designee.

In addition, if the Trustee has received written notice that any holder of the Insured Bonds has been required to disgorge payments of principal of or interest on the Insured Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Trustee will notify BAM or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of BAM.

The Trustee will irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Insured Bonds as follows:

(1) If there is a deficiency in amounts required to pay interest and/or principal on the Insured Bonds, the Trustee will: (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holders of the Insured Bonds in any legal proceeding related to the payment and assignment to BAM of the claims for interest on the Insured Bonds; (ii) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment from BAM with respect to the claims for interest so assigned; (iii) segregate all such payments in a separate account (the “BAM Policy Payment Account”) to only be used to make scheduled payments of principal of and interest on the Insured Bond; and (iv) disburse the same to such respective holders; and

(2) If there is a deficiency in amounts required to pay principal of the Insured Bonds, the Trustee will: (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holder of the Insured Bonds in any legal proceeding related to the payment of such

principal and an assignment to BAM of the Insured Bonds surrendered to BAM; (ii) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment therefor from BAM; (iii) segregate all such payments in the BAM Policy Payment Account to only be used to make scheduled payments of principal of and interest on the Insured Bond; and (iv) disburse the same to such holders.

The Trustee will designate any portion of payment of principal on Insured Bonds paid by BAM, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current holder, whether DTC or its nominee or otherwise, and will issue a replacement Insured Bond to BAM, registered in the name directed by BAM, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Insured Bond will have no effect on the amount of principal or interest payable by the District on any Insured Bond or the subrogation or assignment rights of BAM.

Payments with respect to claims for interest on and principal of Insured Bonds disbursed by the Trustee from proceeds of the Policy will not be considered to discharge the obligation of the District with respect to such Insured Bonds, and BAM will become the owner of such unpaid Insured Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise. The Security Documents will not be discharged or terminated unless all amounts due or to become due to BAM have been paid in full or duly provided for.

Irrespective of whether any such assignment is executed and delivered, the District and the Trustee have agreed for the benefit of BAM that: (A) They recognize that to the extent BAM makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Insured Bonds, BAM will be subrogated to the rights of such holders to receive the amount of such principal and interest from the District, with interest thereon, as provided and solely from the sources stated in the Security Documents and the Insured Bonds; and (B) They will accordingly pay to BAM the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Insured Bonds, but only from the sources and in the manner provided therein for the payment of principal of and interest on the Insured Bonds to holders, and will otherwise treat BAM as the owner of such rights to the amount of such principal and interest.

(g) Additional Payments. The District has agreed unconditionally that it will pay or reimburse BAM on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that BAM may pay or incur, including, but not limited to, fees and expenses of BAM's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Security Documents ("Administrative Costs"). For purposes of the foregoing, costs and expenses include a reasonable allocation of compensation and overhead attributable to the time of employees of BAM spent in connection with the actions described in the preceding sentence. The District has agreed that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to BAM until the date BAM is paid in full.

Notwithstanding anything in the Indenture to the contrary, the District has agreed to pay to BAM: (1) a sum equal to the total of all amounts paid by BAM under the Policy (the "BAM Policy Payment"); and (2) interest on such BAM Policy Payments from the date paid by BAM until payment thereof in full by the District, payable to BAM at the Late Payment Rate per annum (collectively, "BAM Reimbursement Amounts") compounded semi-annually. Notwithstanding anything to the contrary, including without limitation the post-default application of revenue provisions, BAM Reimbursement Amounts will be, and the District has covenanted and agreed that the BAM Reimbursement Amounts are, payable from and secured by a lien on and pledge of the same revenues and other collateral pledged to the Insured Bonds on a parity with debt service due on the Insured Bonds.

(h) Debt Service Reserve Fund. The prior written consent of BAM will be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the 2017A Bond Reserve Account, if any (other than the Reserve Policy). Amounts on deposit in the 2017A Bond Reserve Account will be applied solely to the payment of debt service due on the 2017 Bonds.

(i) Exercise of Rights by BAM. The rights granted to BAM under the Security Documents to request, consent to or direct any action are rights granted to BAM in consideration of its issuance of the Policy. Any exercise by BAM of such rights is merely an exercise of the BAM's contractual rights and will not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Insured Bonds and such action does not evidence any position of BAM, affirmative or negative, as to whether the consent of the holders of the Insured Bonds or any other person is required in addition to the consent of BAM.

(j) Miscellaneous. BAM is entitled to pay principal or interest on the Insured Bonds that become Due for Payment but are unpaid by reason of Nonpayment by the District (as such terms are defined in the Policy) and any amounts due on the Insured Bonds as a result of any acceleration of the maturity thereof in accordance with the Security Documents, whether or not BAM has received a claim upon the Policy.

No contract may be entered into or any action taken by which the rights of BAM or security for or source of payment of the Insured Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of BAM.

If an event of default occurs under any agreement pursuant to which any Obligation of the District has been incurred or issued and that permits the holder of such Obligation or trustee to accelerate the Obligation or otherwise exercise rights or remedies that are adverse to the interest of the holders of the Insured Bonds or BAM, as BAM may determine in its sole discretion, then an event of default will be deemed to have occurred under the Indenture and the related Security Documents for which BAM or the Trustee, at the direction of BAM, upon being indemnified to its satisfaction, will be entitled to exercise all available remedies under the Security Documents, at law and in equity.

For purposes of the foregoing, the term "Obligation" means any bonds, loans, certificates, installment or lease payments or similar obligations that are payable and/or secured on a parity or subordinate basis to the Insured Bonds.

### **Reserve Policy Provisions**

Notwithstanding anything to the contrary set forth in the Indenture, the following provisions apply so long as the Reserve Policy is in full force and effect and BAM has not defaulted on its obligations thereunder:

(a) The District will repay any draws under the Reserve Policy and unconditionally pay or reimburse BAM on demand for all Administrative Costs and other related reasonable expenses incurred by BAM. Interest will accrue and be payable on such draws and expenses from the date of payment by BAM at the Late Payment Rate. The obligation of the District to pay all Administrative Costs and Policy Costs is an absolute and unconditional obligation of the District and will be paid or performed strictly in accordance with the Indenture.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the "Policy Costs") will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to BAM will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to BAM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

All cash and investments in the 2017A Bond Reserve Account will be transferred to the Special Tax Fund for payment of the debt service on the 2017 Bonds before any drawing may be made on the Reserve Policy or any other reserve fund credit instrument in lieu of cash.

Payment of any Policy Cost will be made prior to replenishment of any cash amounts. Draws on all reserve fund credit instruments (including the Reserve Policy) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the 2017A Bond Reserve Account. Payment of Policy Costs and reimbursement of amounts with

respect to reserve fund credit instruments other than the Reserve Policy will be made on a pro-rata basis prior to replenishment of any cash drawn from the 2017A Bond Reserve Account.

For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(b) Draws under the Reserve Policy may only be used to make payments on 2017 Bonds (and, for the avoidance of doubt, not any other obligations of the District, whether issued on a parity with the 2017 Bonds or not).

(c) If the District fails to pay any Policy Costs in accordance with the requirements of paragraph (a) above, BAM is entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than: (i) acceleration of the maturity of the Bonds; or (ii) remedies which would adversely affect owners of the Bonds.

(d) The Indenture may not be discharged until all Policy Costs owing to BAM have been paid in full. The District’s obligation to pay such amount will expressly survive payment in full of the 2017 Bonds.

(e) The Trustee will ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of paragraph (a) above and provide notice to BAM at least three business days prior to each date upon which interest or principal is due on the 2017 Bonds. Where deposits are required to be made by the District with the Trustee to the Special Tax Fund for the 2017 Bonds more often than semi-annually, the Trustee will give notice to BAM of any failure of the District to make timely payment in full of such deposits within two business days of the date due.

(f) The Reserve Policy will expire on the earlier of the date the 2017 Bonds are no longer outstanding and the final maturity date of the 2017 Bonds.

(g) In order to secure the District’s payment obligations with respect to the Policy Costs, there has been granted and perfected in favor of BAM a security interest (subordinate only to that of the Owners of the 2017 Bonds) in all Net Taxes and other revenues and collateral pledged as security for the 2017 Bonds.

(i) Policy Costs that are due and owing will be included in debt service requirements for purposes of the Parity Bond provisions of the Indenture.

## APPENDIX C

### FORM OF BOND COUNSEL OPINION

*Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

August 23, 2017

Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District  
Rancho Santa Margarita, California

*Re:       \$37,250,000 Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water  
District Series 2017A Special Tax Refunding Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California (the “State”), a certified record of the proceedings of the Santa Margarita Water District (the “Water District”) taken in connection with the formation of Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (the “District”) and the authorization and issuance of the District’s 2017A Special Tax Refunding Bonds in the aggregate principal amount of \$37,250,000 (the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the Water District, the District, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) (the “Act”), and Bond Indenture, dated as of August 1, 1999, between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), as amended and supplemented, including by a Fifth Supplemental Bond Indenture, dated as of August 1, 2017 (the “Fifth Supplement”), between the District and the Trustee (collectively, the “Indenture”). All capitalized terms that are not defined herein have the meanings set forth in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, and the Bonds are entitled to the benefits of the Indenture. The Bonds are limited obligations of the District, but are not a debt of the Water District, the State or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the Water District, the State or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, provided, however, that we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, penalty, choice of law, choice of forum or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest on the Bonds is exempt from State personal income tax.

(6) The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest on the Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with certain covenants and all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such covenants and requirements of the Code may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5) and (6) above, we express no opinion as to any tax consequences related to the Bonds.

The opinions that are expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters that are not directly addressed by such authorities. We call attention to the fact that the rights and obligations of the District under the Indenture and the Bonds are subject to and may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

Our opinion is limited to matters that are governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds, and we expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Certain requirements and procedures that are contained or referred to in the Indenture and Tax Certificate may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in the Indenture and Tax Certificate relating to the Bonds, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We



express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the interest on any Bonds if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement as bond counsel to the District terminates upon the issuance of the Bonds.

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

*Upon issuance of the Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:*

This Continuing Disclosure Agreement, dated as of August 1, 2017 (the “**Disclosure Agreement**”) is executed and delivered by Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District (the “**Obligor**”) and Digital Assurance Certification, LLC, as dissemination agent (the “**Dissemination Agent**”), in connection with the issuance of the Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District Series 2017A Special Tax Refunding Bonds (the “**Bonds**”). The Bonds are being issued pursuant to the Bond Indenture, dated as of August 1, 1999, as amended and supplemented, including by the Fifth Supplemental Bond Indenture, dated as of August 1, 2017 (collectively, the “**Bond Indenture**”), each by and between the Obligor and The Bank of New York Mellon Trust Company, N.A., as trustee. The Obligor and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligor and the Dissemination Agent, for the benefit of the Insurer, the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions that are set forth in the Bond Indenture, which apply to any capitalized term that are used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any report provided by the Obligor pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” shall mean any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

“**Disclosure Representative**” shall mean the General Manager or the Controller of the Water District, or the designee thereof, or such other officer or employee as the Obligor shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” shall mean, initially, Digital Assurance Certification, LLC, or any successor Dissemination Agent designated in writing by the Obligor and which has filed with the then current Dissemination Agent a written acceptance of such designation.

“**Fiscal Year**” shall mean the period from July 1 to June 30, or any other period selected by the Obligor as its fiscal year.

“**Insurer**” shall mean Build America Mutual Assurance Company or any successor thereto or assignee thereof.

“**Listed Events**” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

**“Official Statement”** shall mean the Official Statement relating to the Bonds, dated August 1, 2017.

**“Rule”** shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**“State”** shall mean the State of California.

**“Underwriter”** shall mean the original underwriters of the Bonds that are required to comply with the Rule in connection with the offering of the Bonds.

**“Water District”** means the Santa Margarita Water District.

**SECTION 3.     Provision of Annual Reports.**

(a) The Obligor shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, upon delivery of the Annual Report to the Dissemination Agent (if other than the Obligor), not later than April 1 of each year, commencing April 1, 2018, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement (provided that the first Annual Report may consist solely of the Official Statement). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Obligor may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Obligor’s Fiscal Year changes, it shall give notice of such change to the Dissemination Agent and the Obligor shall, or shall cause the Dissemination Agent, by written direction to such Dissemination Agent, to give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) business days prior to each April 1, the Obligor shall provide the Annual Report to the Dissemination Agent (if other than the Obligor). The Obligor shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Obligor and shall have no duty or obligation to review such Annual Report. If: (i) the Obligor is acting as Dissemination Agent and an Annual Report has not been provided to the MSRB by the date required in subsection (a); or (ii) if the Dissemination Agent is other than the Obligor and is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), then the Obligor or the Dissemination Agent (if other than the Obligor), as applicable, shall send a notice to the MSRB in a timely manner in substantially the form prescribed by the MSRB.

(c) The Dissemination Agent shall:

(i) determine each year prior to April 1 the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Obligor, promptly after receipt of the Annual Report, file a report with the Obligor certifying that the Annual Report has been filed with the MSRB pursuant to this Disclosure Agreement, and stating, to the extent that it can confirm such filing of the Annual Report, the date that it was filed.

**SECTION 4.     Content of Annual Reports.** The Obligor’s Annual Report shall contain or include by reference the following:

(a) The Obligor does not currently prepare audited financial statements and it is not anticipated that the Obligor will prepare audited financial statements in the future. If the Obligor does prepare audited financial statements in the future, the Obligor’s Annual Report shall contain or incorporate by reference such audited financial statements, if any, for the most recently completed Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the

Governmental Accounting Standards Board. If audited financial statements of the Obligor are to be prepared in the future, but are not available at the time required for filing as set forth in Section 3(a), unaudited financial statements of the Obligor shall be submitted with the Annual Report and the audited financial statements shall be submitted once available. The financial statements of the Water District shall be filed to the extent that the Obligor does not prepare audited financial statements, but the financial statements of the Water District shall not be deemed to be the financial statements of the Obligor unless such audited financial statements contain specific information as to the Obligor, its revenues, expenses and account balances. If the Water District's audited financial statements contain specific information as to the Obligor, its revenues, expenses and account balances, the Obligor's Annual Report shall contain or incorporate by reference the Water District's audited financial statements. If the Water District's audited financial statements contain specific information as to the Obligor, its revenues, expenses and account balances, but are not available at the time required for filing, unaudited financial statements of the Water District that contain specific information as to the Obligor, its revenues, expenses and account balances shall be submitted with the Annual Report and the Water District's audited financial statements shall be submitted once available.

(b) To the extent not contained in the audited financial statements filed pursuant to subsection (a):

(i) an update of the information that is contained in Tables 2, 3, 4, 5, 10 and 11 in the Official Statement;

(ii) any change to the Rate and Method of Apportionment of Special Tax for the District set forth in Appendix A to the Official Statement; and

(iii) all annual information that is required to be filed by the District with the California Debt and Investment Advisory Commission pursuant to Section 53359.5(b) of the California Government Code and relating generally to outstanding Bond amounts, Bond Indenture fund balances, assessed values, special tax delinquencies and foreclosure information, which has not otherwise been reported pursuant to the requirements above

Any or all of the items that are listed above may be included by specific reference to other documents, including official statements for debt issues of the Obligor or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Obligor shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Obligor shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

(i) Principal and interest payment delinquencies.

(ii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iii) Unscheduled draws on credit enhancements reflecting financial difficulties.

(iv) Substitution of credit or liquidity providers, or their failure to perform.

(v) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB).

(vi) Tender offers.

(vii) Defeasances.

- (viii) Rating changes.
- (ix) Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Obligor shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not more than ten (10) Business Days after occurrence:

(i) Unless described in Section 5(a)(v), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds.

(ii) Modifications to the rights of Bondholders.

(iii) Optional, unscheduled or contingent Bond calls.

(iv) Release, substitution or sale of property securing repayment of the Bonds.

(v) Non-payment related defaults.

(vi) The consummation of a merger, consolidation or acquisition involving the Obligor or the sale of all or substantially all of the assets of the Obligor, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(vii) Appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the Obligor determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the Obligor, the Obligor shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(vii) and (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (c) prior to the occurrence of such Listed Event.

(d) If the Obligor determines that a Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Obligor, the Obligor shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The Obligor hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Obligor and, if the Dissemination Agent is other than the Obligor, the Dissemination Agent shall not be responsible for determining whether the Obligor's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Obligor and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Obligor shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The Obligor may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Obligor pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days' written notice to the Obligor and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Obligor and shall have no duty to review any information provided to it by the Obligor. The Dissemination Agent shall have no duty to prepare any information report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Obligor in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligor may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule, and provided further that the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Obligor shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Obligor. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (a) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a); and (b) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligor from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Obligor chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Obligor shall have no obligation under this Disclosure Agreement to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure by the Obligor or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Insurer or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligor to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligor or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Owner or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Obligor satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Obligor shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligor agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or

performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligor for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Obligor, the Owners, or any other party. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under the Indenture. The obligations of the Obligor under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given to the Dissemination Agent (if other than the Obligor) and to the Obligor as follows:

Disclosure Representative:	Santa Margarita Water District General Manager 26111 Antonio Parkway Rancho Santa Margarita, California 92688
Dissemination Agent:	Digital Assurance Certification, LLC 315 East Robinson Street, Suite 300 Orlando, Florida 32801-1674
Insurer:	Build America Mutual Assurance Company 200 Liberty Street, 27th Floor New York, New York 10281 Attention: Surveillance Re: Policy No. 2017B0438 Telephone: (212) 235-2500 Telecopier: (212) 235-1542 Email: notices@buildamerica.com

SECTION 13. Beneficiaries. This Disclosure Agreement inures solely to the benefit of the Obligor, the Dissemination Agent, the Insurer, the Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the Obligor to the undertaking herein provided.

COMMUNITY FACILITIES DISTRICT NO. 99-1  
(TALEGA) OF THE SANTA MARGARITA WATER  
DISTRICT

By: \_\_\_\_\_  
General Manager of the Santa Margarita Water  
District

DIGITAL ASSURANCE CERTIFICATION, LLC, as  
Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer



## APPENDIX E

### BOOK-ENTRY-ONLY PROVISIONS

*The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the District believes to be reliable, but the District take no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in Bonds, except in the event that use of the book entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the District or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bond by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bond are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## **APPENDIX F**

### **SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

[THIS PAGE INTENTIONALLY LEFT BLANK]



[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



